# FINANCIAL TIMES

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## WORLD NEWS

### Europe's insurers are unprepared for switch to single currency, study says

More than half of Europe's insurance companies are unprepared for conversion to a single currency, says a survey by Tillinghast-Towers Perrin, the actuarial consultants. It said many have not yet invested adequately in technology for their policy processing systems and for matching assets and liabilities in euros for fund management operations. Page 2

**Tax proposal on film companies**
Britain's minister for culture, Chris Smith, will today unveil proposals to introduce a levy on the turnover of film companies operating in the country, with the levy going to finance a training initiative. Page 9

**Protest halts Greek air carrier**
Workers at Olympic Airways, the loss-making Greek state carrier, stopped work for three hours in protest at a restructuring of the airline proposed by the Socialist government. Page 3

**Prodi meets unions over job efforts**
Italy's prime minister Romano Prodi held talks with union leaders over proposals to improve employment in the south, in an attempt to fend off a general strike later this year. Page 3

**Milosevic in link with radicals**
Yugoslavia's president, Slobodan Milosevic, risked further international isolation by forming a coalition government in the Serbian republic between his Socialists and the ultra-nationalist Radical party. Page 3

**ILO sets fundamental worker rights**
The International Labour Organisation issued a declaration of fundamental employment rights with a follow-up mechanism, but Michel Hansenne, director-general, faces internal opposition from developing countries which see it as a protectionist proposal. Page 4

**Nato exercises around Bosnia**
Nato land and sea forces began a two-week military exercise in and around Bosnia against a backdrop of renewed tension in the Balkans. NATO said the exercise had the intent of promoting peace and stability in the region.

**US seeks more funds for IMF**
The US administration intensified efforts to secure congressional support for more funding for the International Monetary Fund, and urged Congress not to attach impractical conditions to extra money. Page 6

**Swiss banks still face US boycott**
Swiss banks are under growing pressure in the US to make a "global settlement" on the issue of bank accounts of Holocaust victims as they face renewed threats of boycotts. Page 2

**FBI says computer crime doubled**
The US Federal Bureau of Investigation warned that criminal cases against computer hackers have more than doubled this year, with industrial spies and foreign agents joining the former ranks of teenage "hackers". Page 6

**Japan to tighten bad debt reports**
Japanese banks said they would tighten rules for disclosure of bad debts as part of the country's "Big Bang" financial deregulation. Analysts said the new standards, based on US practices, would probably lead to a 20-30 per cent increase in reported bad loans. Page 8

**Three die in raid on food aid**
Three people were killed by armed escorts when raiders tried to loot a UN food aid convoy in the Somalian capital of Mogadishu. The trucks were taking food to flood victims in southern Somalia.

## BUSINESS NEWS

### Private capital for developing countries to fall, warns World Bank

Private capital flows to developing countries are likely to fall this year in the wake of the Asian economic crisis from the record $256bn set in 1997, the World Bank said in its annual analysis of global development finance. Page 16; Export credits up, Page 4; Personal view by Joseph E. Stiglitz, Page 14; Editorial Comment, Page 15

**ING Barings** is to close its London-based equity derivatives business as part of a reorganisation which gives a higher priority to its investment banking activities in western Europe at the expense of emerging markets. Page 17; Lex, Page 16

**Roche,** the Swiss pharmaceutical group, surprised the stock market by taking a SFr6.3bn charge partly to cover its SFr15bn ($10bn) acquisition of Corange, owner of the Boehringer Mannheim diagnostics and drugs business. Page 17

**Creditanstalt,** the Austrian bank, ended the tussle over Austrian vehicle maker Steyr-Daimler-Puch when it agreed to sell majority control to Canada's Magna International for Sch4bn ($310m) in cash. Page 20

**Virgin Express,** the Brussels-based low-cost airline, is considering moving to the UK or Ireland to escape Belgian labour costs and what it sees as excessive government and union interference. Page 20

**Mahindra & Mahindra,** the Indian car and tractor maker, says it will allow Ford to assume eventual majority control of their joint venture to make passenger cars for the Indian market. Page 23

**Pirelli,** the Italian tyre and cables group, announced a streamlining of its structure as it reported a 17.4 per cent rise in 1997 consolidated net profits to L512bn ($284m). Page 19

**Seat,** the Spanish carmaker, confirmed its recovery by announcing net profits of Pta11.05bn ($71.3m) for last year – more than double the previous year's Pta5.34bn. Page 20

**Caisse d'Epargne** savings network of France reported net 1997 income up 10.4 per cent to FFr2.02bn ($326m) while defending its return on equity of 3 per cent. Page 19

**Deutsche Post,** Europe's largest postal service, is expected to announce that it is taking a 22.5 per cent stake in courier service DHL International. Page 20

**Brunner Mond,** the chemicals company spun out of ICI two years ago, said it had received an approach which might lead to an offer being made. Page 24

**Daewoo,** the South Korean industrial group, confirmed it had sold part of a 40 per cent stake in Kazakhstan's telecommunications monopoly Kazakhtelecom. Page 23

**Audi,** Volkswagen's executive cars subsidiary, increased pre-tax profits by 29 per cent to a record DM1.11bn ($606m) last year. Page 20

**Mexico's** banking laws will be reformed to allow foreign ownership of domestic banks. Page 17

**British Petroleum** has awarded share bonuses worth more than £3m ($5m) to five directors. Page 25

**World Equity Markets**
The latest trends and data from more than 50 national markets at a glance
Page 37

# Kiriyenko wins business backing to stay as PM

## Russian tycoon Berezovsky suggests acting premier may get job permanently

**By Chrystia Freeland and John Thornhill in Moscow**

Sergei Kiriyenko, Russia's 35-year-old acting prime minister, is the most likely candidate to be nominated as the next permanent prime minister, Boris Berezovsky, an influential Kremlin power-broker, indicated yesterday.

"I think he is indubitably better than what we had up until today," Mr Berezovsky said.

"Is he ready to become the prime minister? I think not. Can he become the prime minister? I think so."

Mr Berezovsky, the de facto spokesman for many of Russia's biggest businesses and also close to Mr Yeltsin's inner circle, gave his qualified endorsement as Mr Kiriyenko set about forming a new cabinet.

President Boris Yeltsin, who stunned the world on Monday by dismissing his entire government, hinted that Yevgeny Primakov and Igor Sergeyev, the foreign and defence ministers, would keep their jobs.

Foreign investors, who were initially shocked by Mr Yeltsin's drastic action, were sufficiently reassured by Mr Kiriyenko's temporary nomination to support a DM1.25bn ($680m) seven-year eurobond issue.

The issue, Russia's first foray into the international capital markets since the Asian crisis, had been postponed on Monday because of the political uncertainty.

Mr Yeltsin has given Mr Kiriyenko, a former provincial banker and oil executive, a week to form a new cabinet.

Although he refused to name possible cabinet members, Mr Kiriyenko put an immediate emphasis on social issues in an apparent effort to address Mr Yeltsin's biggest criticism of the previous government.

"From an economic point of view, the situation in our country is difficult. Wage arrears are again growing, the pension fund is in a difficult state," he said in a newspaper interview published yesterday.

Mr Kiriyenko also began a careful campaign to shore up his support, meeting with the heads of the upper and lower houses - the Duma - of the Russian parliament.

Their backing is crucial if he hopes to become prime minister, because the president's candidate must be confirmed by the legislature.

Perhaps equally important is the blessing of Russia's powerful tycoons. That has effectively been granted by Mr Berezovsky.

"Kiriyenko is an absolutely new man," Mr Berezovsky said. "The experience of many people who have dealt with him is that he is a deep and profound man."

Mr Berezovsky, whose advice may have contributed to the president's decision to sack his government this week, said Mr Kiriyenko's relative obscurity could be an advantage in the selection process.

"This is a Russian tradition. He who is less known is always better," he said. "The known man's faults are familiar. But we can close our eyes to the unknown man's bad qualities, because they are not yet known."

Although Mr Berezovsky said he was personally in favour of a "sharper", more radical nominee than Mr Kiriyenko, he disparaged the two top reformist candidates for the post, Boris Nemtsov and Grigory Yavlinsky.

The financier dismissed Mr Nemtsov, acting first deputy prime minister, as "a good provincial politician, but he is not ready to take decisions on a federal level, not only as prime minister, but even as first deputy prime minister".

Tycoon aiming to pull Kremlin strings, Page 2

Bonjour: French president Jacques Chirac, left, welcomes UK prime minister Tony Blair to the Elysée palace during Mr Blair's visit to Paris yesterday. Mr Blair addressed the National Assembly in impeccable French and was told by assembly president and former Socialist prime minister Laurent Fabius: "We are curious about you, dear Tony Blair, your personality and style, which have made more than one of us feel old-fashioned." Page 2. Picture: Reuters

# Uganda's royal welcome for 'president of the world'

**By Michela Wrong in Mukono, Uganda**

"It's the president of the world," was the conviction of one of the 3,000 pupils gathered at Kisowera Primary school. "He is more important than my president, because he has a bigger army and more money," added 11-year old Annie Nakayemba, displaying an understanding of *realpolitik* that belied her youth.

The dignitaries were scarcely less star-struck. "For us, he is a bit like a film star," said a council officer attending the ceremony to welcome US president Bill Clinton to Mukono, a small town outside the Ugandan capital, Kampala. "People really want to see him and they are disappointed that there has been no chance up till now."

Banana saplings twined with flowers had been planted by the roadside, complementing the wooden arches decorated with the Stars and Stripes.

But in the end it was all for nothing, because the president flew in rather than risk being trapped on the rain-clogged roads.

Sitting under a sun umbrella, Mr Clinton – his colour already heightened by his Ghana stopover – appeared distracted. Maybe he was regretting the choice of a dark suit in the blinding heat, or maybe he was irritated by the White House press corps' predictable determination to squeeze a response out of him about the latest twist in the Washington sex scandal.

Local children treated the First Couple to a paean to Ugandan president Yoweri Museveni's universal primary education (UPE) plan, which last year more than doubled the number of children in class.

The voices were sweet, if the lines were not the snappiest. "Mishandling funds, misinterpretation, shortage of classrooms and teachers prevent UPE from flourishing," they sang.

While the president's 12-day tour of Africa is the most extensive undertaken by a US leader, its historic significance has so far scarcely been reflected in the initiatives on offer or the issues addressed, with the emphasis very much on the touchy-feely rewards of "reaching out".

Speaking later from a stage draped with bark cloth, a Ugandan attribute of royalty, Mr Clinton skirted the subject of Mr Museveni's "no-party" political system, Uganda's support for rebel takeovers among its neighbours and its failure to control insurgency within its borders.

Instead he said he regretted the US's cavalier treatment of Africa during the cold war and, coming as close as any president has yet to an apology, acknowledged that the slave trade that benefited the US was wrong.

"We have never been as involved with you as we should have been," Mr Clinton told the people of Africa. "I come here to listen, learn and offer my help, my friendship and partnership."

For most Ugandans, partnership comes with a price tag. But the pickings on offer yesterday seemed fairly modest: just $120m spent on an African education assistance programme, $61m on improving crop quality and $1m on fighting malaria.

Probably not as much as Annie Nakayemba, who wants to be a lawyer when she grows up, was expecting from "the president of the world".

Kenyans rue fall from grace, Page 4

# Brussels puts emphasis on ERM membership

**By Wolfgang Münchau in Frankfurt and Lionel Barber in Brussels**

A report by the European Commission will today confirm that countries wanting to join the European single currency must be members of the exchange rate mechanism.

The Commission's convergence report will signal that Britain will come under increasing pressure to join the ERM ahead of its planned referendum on membership of the single currency after the next British general election.

The strictures on ERM membership are aimed at Britain and Sweden, neither of which wants to join Emu in the first wave and neither of which is in the ERM.

The report will indicate that, even though other criteria for membership may be met, a country in this position would not qualify for Emu. That could prove awkward for Gordon Brown, the UK chancellor, who has ruled out joining the ERM after the humiliation of the previous government when the pound was ejected from the mechanism in 1992. Mr Brown argues that it is possible to achieve satisfactory exchange rate stability without ERM membership.

The European Union's Maastricht treaty, which sets the qualifying conditions for Emu, stipulates that countries have to observe the normal ERM fluctuation bands for two years. Britain argues that this clause became meaningless when the ERM nearly collapsed in 1993, prompting a widening of its fluctuation margins. The Commission report avoids the issue of whether countries will be required to stay in the ERM for two years. The report is expected to pave the way for 11 other countries – all the EU members except the UK, Sweden, Greece and Denmark – to join Emu from January 1.

The European Monetary Institute, the forerunner of the central bank, will today publish a separate report on the 15 EU economies. Both reports will assess whether EU countries are fit for the single currency, and whether their current economic performance is sustainable. They serve as the basis for the final political decision to be taken by EU leaders at a summit in Brussels on May 1-3.

The Commission's report will contain recommendations about whether individual countries should be permitted to join Emu. It will also contain economic forecasts for all EU members. The EMI's report will not make recommendations about membership for Emu, but is expected to be more critical about sustainable economic performance.

It may take a more sceptical view about debt convergence, especially as Belgium and Italy, prospective Emu members, have debt levels at about twice the prescribed target of 60 per cent of gross domestic product.

Countdown to Emu, Page 15



## WORLD MARKETS

| STOCK MARKET INDICES | | |
|---|---|---|
| New York: Lunchtime | | |
| Dow Jones Ind Av | 8,905.45 | (+89.18) |
| NASDAQ Composite | 1,811.61 | (+19.1) |
| Europe and Far East | | |
| CAC40 | 3,728.54 | (+58.41) |
| DAX | 5,026.24 | (+56.82) |
| FTSE 100 | 5,983.7 | (+36.7) |
| Nikkei | 16,606.39 | (-282.44) |
| US Lunchtime RATES | | |
| Federal Funds | 5.37% | |
| 3-mth Treas Bills: Yld | 5.145% | |
| Long Bond | 103½ | |
| Yield | 5.872% | |
| OTHER RATES | | |
| UK: 3-mo Interbank | 7⅜% | (same) |
| UK: 10 yr Gilt | 110.0234 | (109.718) |
| France: 10 yr OAT | 104.73 | (104.9) |
| Germany: 10 yr Bund | 108.41 | (108.23) |
| Japan: 10 yr JGB | 110.02 | (110.13) |
| NORTH SEA OIL (Argus) | | |
| Brent Dated | $14.075 | (14.435) |

| GOLD | | |
|---|---|---|
| New York: Comex | | |
| Mar | $299.5 | (299.0) |
| London | $301.35 | (293.45) |
| EXCHANGE RATES | | |
| Dollar | | |
| New York Lunchtime | | |
| £ | 1.67485 | |
| DM | 1.8283 | |
| FFr | 6.129 | |
| SFr | 1.491 | |
| Y | 130.25 | |
| London | | |
| $ | 1.6757 | (1.6767) |
| DM | 1.8295 | (1.8282) |
| FFr | 6.13 | (6.1276) |
| SFr | 1.4913 | (1.4921) |
| Y | 130.355 | (130.31) |
| Tokyo Close Y | | 130.26 |
| Sterling | | |
| DM | 3.0655 | (3.0654) |



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# Tycoon aiming to pull Kremlin strings

By Chrystia Freeland and John Thornhill in Moscow

In spring 1996, Boris Berezovsky was one of several financiers who came together in a last-ditch attempt to keep the Communists out of the Kremlin and secure President Yeltsin's re-election later that year.

This time around, Mr Berezovsky and his colleagues are trying much earlier in advance to ensure the victory in 2000 of an acceptable presidential candidate.

Before last Monday, Mr Berezovsky, who describes himself as an adviser to Valentin Yumashev, the powerful Kremlin chief of staff, was urging Mr Yeltsin to sack the government and begin grooming an electable successor. In an interview yesterday with the Financial Times, Mr Berezovsky said that this week his views "happily coincided" with those of Mr Yeltsin, who stunned the nation on Monday by dismissing his entire government, including its long-serving prime minister, Victor Chernomyrdin.

Some observers have seen more than coincidence in this turn of events, viewing the former mathematician as a modern-day Rasputin, secretively manipulating the president and his family. Anatoly Chubais, the first deputy prime minister who was another casualty of the sackings, explicitly accused Mr Berezovsky of being the adviser who persuaded Mr Yeltsin to make his move.

Mr Berezovsky denied charges of manipulation but admitted he offers advice to Mr Yumashev and to Tatyana Dyachenko, the president's younger daughter. "My job is as an adviser to the head of the president's administration," he said. "With regard to my relations with Tatyana Dyachenko, I know her well...I truly do have the opportunity to state my point of view. I very much hope that my advice will prove useful."

Mr Berezovsky believes Mr Yeltsin's boldness is the only way to prevent a re-run of 1996, when an anti-capitalist leader seemed on the verge of seizing the Kremlin. "With regard to the Chernomyrdin government, it was absolutely predictable for us that we were moving towards disaster. I mean a political disaster. So, from the point of view of probability, any change was an improvement," he said.

By his own admission, Mr Berezovsky has more of a vested interest in Russia's troubled political succession than most. Although he hotly rejects the view that a small corporate oligarchy rules Russia, he is a strong advocate of "the consolidation of capital" and of "big capital's" necessary role in Russia's political life.

To that end, Mr Berezovsky said that. Russia's tycoons are already coming together and developing a collective election strategy.

The starting point for "Russian capital" is that, in contrast with 1996, Mr Yeltsin is no longer a viable presidential contender. Mr Berezovsky was full of praise for his political talents, calling him Russia's best politician, but said he was physically too weak to run successfully against new, more vigorous rivals, especially Yuri Luzhkov, Moscow's populist mayor.

In Mr Berezovsky's view, a Luzhkov victory would be a devastating blow to Russia's reform effort. He named the Moscow mayor, together with Alexander Lebed, the former general, and Gennady Zyuganov, the Communist chief, as three presidential aspirants who could not continue reforms.

But he said that the leading pro-reform candidates, including Mr Chernomyrdin, Boris Nemtsov, the acting first deputy prime minister, and Grigory Yavlinsky, the leader of the opposition Yabloko party, were probably unelectable.

Berezovsky: urged Yeltsin to sack the government

For Mr Chernomyrdin, that could be a depressing verdict. Many western analysts, and the ex-premier's political allies, argued that the sacking would allow Mr Chernomyrdin to rally Russia's fissiparous democratic forces behind his own presidential bid.

But Mr Berezovsky took a rather more Darwinian approach to the president's instruction that Mr Chernomyrdin is now to devote his time to "concentrate on political preparations for these elections". He said the test of being deprived of a premier's prerogatives would establish whether Mr Chernomyrdin was presidential material.

Mr Berezovsky appears to have succeeded in persuading the Kremlin administration that the current government must go. But he and his allies have now given themselves two years to find a candidate who is, by their definition, both "electable" and "a continuer of reforms".

# Le Pen attacks Chirac speech

By Robert Graham

Jean-Marie Le Pen, leader of the far-right National Front, accused President Jacques Chirac yesterday of encouraging a climate of violence after he labelled the party racist and xenophobic in a televised address.

The attack on the National Front on Monday night "amounts to stirring up violence against patriotic Frenchmen and he must assume responsibility", Mr Le Pen said. He also criticised Mr Chirac for partiality, saying the president had appeared like "the head of a clan".

Mr Chirac's appearance was an attempt to rally the moderate right after its ranks were profoundly split over forging local alliances with the National Front to control regional administrations.

Mr Le Pen's virulent reaction underscored the tenseness of the political climate after the decision last Friday by five leading centre-right politicians to ignore strictures from Paris headquarters to avoid local deals with the National Front. Three other regional heads resigned after being elected with National Front support.

The group most deeply split has been the UDF group, which has seen one leader, François Léotard, condemn deals with the Front and another, Alain Madelin, all but condone them. Yesterday the UDF was struggling to find a common position on whether to continue the five-day-old suspension of the five "rogue" regional leaders or eject them.

One immediate result of Mr Chirac's tough anti-Front line was that late on Monday night the Gaullist RPR and the liberal UDF declined to utilise National Front votes to retain control of the Ile-de-France regional administration around Paris, thus allowing the leftwing coalition candidate to take over.

The ruling Socialist party was noticeably quiet about the barbed comments Mr Chirac directed at the left for encouraging the Front's rise. The prime minister, Lionel Jospin, appears anxious to keep public attention focused on the disarray of the right.

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BLAIR IN PARIS AMBIGUITIES IN A NEW RELATIONSHIP

# French questions for 'Cool Britannia'

By Robert Graham in Paris

All the curiosity, fascination, envy and animosity felt by the French political establishment towards Tony Blair's "Cool Britannia" were evident yesterday as the British prime minister addressed the National Assembly in impeccable French.

This mix of sentiments, save the animosity, was caught by Laurent Fabius, president of the assembly and a former Socialist prime minister. Excusing his "impertinence", he said: "We are curious about you, dear Tony Blair, your personality and style, which have made more than one of us feel old-fashioned."

He complimented Mr Blair on a double achievement - "speaking immaculate French, yet belonging to a people who like us usually expect others to learn their own language, and being one of the rare foreign leaders a politician in either camp can identify with, yet without being compromised by this compliment".

Behind this politeness and ease in a genuinely more familiar relationship than has existed with previous British governments, the questions remain. They overshadow the many points the French now find in common with New Labour.

Two of these – attitudes towards the euro, the European single currency, and the special relationship between London and Washington – are raised not just by the Socialist-led government but by almost all the political parties.

The French quite simply do not understand the continued ambiguities of the British government towards economic and monetary union (Emu). Lionel Jospin, the prime minister, heads a coalition government that contains Communist ministers and relies on vital Communist votes in parliament.

·The Communists are hostile to Emu but Mr Jospin has managed to bring them forward with him to accept it, even though he himself once had doubts.

In contrast, Paris sees Mr Blair professing his faith in Britain's future with Europe but, even with an enviable parliamentary majority, preferring not to make a firm commitment while having the audacity to stake a claim to Europe's leadership. "We ask questions about how long the situation can last whereby such an important member [of the EU] as you remains both in and out," observed Mr Fabius.

So long as there is no firm commitment to the euro or a recognisable timetable, the French government feels both irritated and frustrated with Britain. It also obliges Paris to rely more than it would like on the Franco-German axis.

**'We are curious about you, dear Tony Blair, your personality and style, which have made more than one of us feel old-fashioned'**

The second issue is a near-universal French feeling that Britain puts its relationship with the US above and beyond that of Europe. This is always close to the surface but it came to the fore again over the latest Iraq crisis.

When Mr Blair tried yesterday to explain his views on helping to bring Washington closer to Europe, he was listened to in polite silence.

The French left still uses a different language. Hence the difficulty of translating buzzwords in the lexicon of Anglo-Saxon political economy such as "flexibility", which yesterday Mr Blair tactfully relabelled "adaptability".

Mr Jospin is also of an older generation, with a more restrained style. Though admiring Mr Blair, he does not readily take to be given lessons on how to run a country.

# Support growing for EU ban on drift net fishing

By Michael Smith in Brussels

European Union fisheries ministers yesterday signalled support for a ban on the use of drift nets on the high seas to protect dolphins.

The ban, which follows years of campaigning by environmentalists, is opposed by France and Ireland, which are among the main users of drift net boats. However, Britain, holder of the rotating EU presidency, said yesterday that it was confident that ministers would vote for a ban at their next meeting in June after initial discussions yesterday.

The UK's opposition to a ban under the last Conservative government was one of the factors blocking a 1994 proposal by the European Commission to outlaw drift nets. The UK's new line yesterday was supported by Germany, Spain, Finland and Sweden.

Elliot Morley, UK fisheries minister, said that all member states "accept that the mood of the council [of fisheries ministers] is for a ban". The UK had proposed a ban from next year, although that was still open to negotiation along with a longer phase-out periods for some boats and financial compensation for fishermen.

Drift nets are used mainly to catch tuna and swordfish. A study of 10 British boats using them in 1995 found that 160 dolphins died after being caught in the nets. Britain now has only five drift net boats. France, however, has around 35 and Ireland 11.

Italy, which also has a fleet of drift net boats, said yesterday it was in favour of a total ban. However, it opposed an exemption from the ban for the Baltic Sea. Other nations say Baltic drift nets do not cause significant by-catches of marine animals.

Drift-net fishing has been dubbed "the wall of death" by environmental campaigners, because thousands of dolphins are thrown back into the sea as unwanted by-catch.

The striped dolphin population has its numbers cut by 2 per cent every year because of drift nets, according to some estimates.

Environmentalists want countries to adopt the rod and line system of tuna fishing, which yields better quality fish.

Most drift nets are used in the Mediterranean and the Bay of Biscay, and fishermen say it would be difficult to convert drift net boats to other uses.

# Uninsured for euro's arrival

By Christopher Adams, Insurance Correspondent

More than half of Europe's insurance companies are unprepared for the single currency, according to a survey by Tillinghast-Towers Perrin, the actuarial consultants.

Many have not yet invested adequately in technology to ensure that their policy processing systems will be able to handle transactions in euros and that fund management operations can match assets and liabilities in the single currency.

The survey, published today, also shows that the vast majority of chief executives expect banks and other financial services providers to expand their share of financial services at the expense of traditional insurers.

The pace of consolidation will accelerate, with 90 per cent predicting an increase in mergers and acquisitions. Few companies, however, see foreign insurers as a significant threat to their domestic position, in spite of European Union efforts to liberalise markets.

"Insurers still have considerable investments to make, particularly in technology, before they will be ready to compete in a single European market," says Costas Miranthis of Tillinghast.

Estimates of the cost of conversion to the single currency vary. Some analysts have put total expenditure by the European insurance industry at £5bn ($8.35bn). Last week France's Axa-UAP group said it expected to spend some FFr1.2bn ($196m) on conversion to the euro between 1998 and 2001.

# Swiss banks pressed to make 'global settlement'

New boycott threats as US officials meet to review progress on Holocaust accounts, write **William Hall** and **John Authers**

Swiss banks are under growing pressure in the US to make a "global settlement" of the issue of Holocaust victims' accounts and face renewed threats of boycotts from state and city politicians.

A steering committee of public finance officials in the US headed by Alan Hevesi, New York City Comptroller, will meet in New York tomorrow to review the banks' progress since last December when 200 public officials voted to suspend sanctions until the end of this month.

The action was designed to increase the pressure on Swiss banks, and to help the chances of a class action lawsuit against the banks which has been filed in New York on behalf of Holocaust survivors.

Hopes of a global settlement have risen substantially since then, only to subside in recent weeks amid sharp criticism from leaders of Jewish community organisations. Edgar Bronfman, president of the World Jewish Congress, has suggested $3bn as a possible figure for any settlement. "We have reached a stage where this matter must be settled, or it will come to war," Mr Bronfman said recently.

Matt Fong, California's state treasurer and a member of the Hevesi steering committee, last week broke ranks with his colleagues and said that the Swiss banks must issue written confirmation of their willingness to settle the class actions by March 31, with money to be paid into a "Victims' Fund". He added that the amount of money to be paid into the fund, along with a timetable for transferring the funds, should be settled by the beginning of May.

He said he had discussed his stance with both the Los Angeles-based Simon Wiesenthal Centre, and the World Jewish Congress. If the Swiss banks failed to keep this timetable, he said he would unilaterally boycott any direct investments with their US subsidiaries.

Thomas Borer, head of the Swiss government task force overseeing the investigations into Switzerland's wartime record, does not hide his frustration at the way the goalposts appear to have moved since mid-December. He said yesterday that last December's conference had only called on the Swiss banks to demonstrate that progress was being made, and there would be "plenty of progress to report" at tomorrow's meeting which he will attend, along with the US heads of the big three Swiss banks.

The Swiss argue that work of the Independent Committee of Eminent Persons, headed by Paul Volcker, the former head of the US Federal Reserve, was making good progress in its search for unclaimed accounts of Holocaust survivors and has set up a speedy claims resolution process. It hopes to have finished its work by the end of next year. A SFr275m ($186m) fund for needy Holocaust survivors has been making payments since last November and on April 6 an international team of historians, headed by Professor Jean-François Bergier, will issue its first critical assessment of the role of the Swiss government and the Swiss National Bank in dealing with Nazi Germany during the war.

The Swiss government and its banks believed that these moves were sufficient to satisfy the international criticism of the country's controversial war-time role and to defuse the legal actions.

However, the idea of an additional "global settlement" involving the Swiss banks began to take hold soon after last December's conference. Stuart Eizenstat, the US under secretary of state, called the chief executives of the big three Swiss banks – UBS, Credit Suisse and Swiss Bank Corporation – and three lawyers representing the US class action plaintiffs, to a meeting in Zurich on December 14.

It was the first face-to-face meeting of all the parties involved in the class actions. Mr Eizenstat's initiative was welcomed by the lawyers involved in the class actions, whose bargaining power would be materially reduced if the US courts refuse to hear the class action. At present the lawsuit is stalled in a district court in Brooklyn, while a judge examines the argument made by the banks for the case to be rejected.

However, the Swiss government and its banks are far less enthusiastic. The banks are worried that any lump sum settlement could leave them open to future claims from disgruntled customers. Meanwhile, the government is reluctant to support a settlement which could set a financial precedent for claims against Swiss insurers and other Swiss industries.

Mr Eizenstat, who will attend tomorrow's meeting, now finds himself in a difficult position. Having raised hopes of a global settlement, he also believes strongly that punitive measures against Swiss banks are both "unjustified and counter-productive".

If the Hevesi committee now agrees to drop the threat of sanctions against the Swiss banks, it will have lost its most effective bargaining counter. As Mr Lukas Mühlemann, Credit Suisse's chief executive, said recently, the threat of a boycott is much worse than an actual boycott. At least you can fight a boycott in a court of law.

## NEWS DIGEST

### GERMAN ECONOMY

## Optimistic forecast on 1998 export growth

Germany will come close this year to matching 1997's exceptionally strong export performance, according to forecasts yesterday by the association of wholesalers and exporters (BGA).

Exports will rise by 11.5 per cent after a 12.5 per cent increase in 1997, it said. The forecast was significantly more optimistic than government projections.

Michael Fuchs, the association's president, played down the likely impact of economic turmoil in south-east Asia, pointing out that less than 5 per cent of German exports were accounted for by the main countries affected.

The association reckons German imports will rise by 9 per cent this year, compared with 10.9 per cent last year. However, it did not expect the buoyant level of international trade to make significant inroads into Germany's high unemployment level.

● Western Germany's inflation rate has moderated further this month, according to provisional figures from the federal statistics office. The annual rate has fallen to 1.0 per cent from 1.1 per cent in February. **Ralph Atkins, Bonn**

### WORLD CUP ROW

## French defy ticket request

About 110,000 tickets for this summer's World Cup soccer championship will be sold on a first-come, first-served basis to all European fans, including French spectators, in defiance of a European Commission request that they be made available to non-French supporters only.

The tickets are all that are left after the French World Cup organisers agreed to hand 50,000 of the 160,772 unsold tickets to national football federations in response to criticisms that they had rigged sales to date in favour of French nationals.

"There was distinct discrimination between French and non-French residents," said Karel Van Miert, the competition commissioner, who confirmed yesterday that the Commission was starting legal action against the Comité Français d'Organisation, the World Cup organisers.

Any formal decision on the legal case would come too late to affect how the remaining tickets are sold. However, the CFO could suffer fines of up to 10 per cent of its turnover – in this case, 10 per cent of total ticket sales. **Emma Tucker, Brussels**

### EU AGRICULTURE

## Farmers protest over reforms

About 300 French and German farmers demonstrated overnight on the Franco-German border against proposed European Union agricultural reforms, police said yesterday.

The protesters blocked traffic for two hours across the Pont de l'Europe linking France and Germany, buried a symbolic reform "package" and burned an effigy of Uncle Sam.

Protesters said their actions were intended to demonstrate their displeasure with EU reform plans, which they say are inspired by Washington's free-market farm policies. The reform package includes cuts of up to 30 per cent in subsidised support prices from 2000 to prepare for future EU expansion. EU Farm ministers are to gather in Brussels next Tuesday to discuss the plans.

The demonstrations were organised by local branches of FNSEA, France's largest farmers' union. The union said farmers were trying to organise other sporadic protests across France yesterday, and promised action on a national scale if the EU Commission did not back down on its main market-oriented proposals. **Reuters, Strasbourg**

### BELARUS BORDER

## Russians lose arrest appeal

A court in Belarus yesterday upheld a sentence against two Russian journalists whose arrest and conviction for illegally crossing the border have caused mass protests and strained Belarus's relations with Russia.

Pavel Sheremet, a reporter for Russia's ORT state television, and his cameraman Dmitry Zavadsky both Belarus citizens were arrested in July and held for weeks after filming a report on lax border controls. They were convicted in January, but received suspended jail sentences and a nominal fine of 456,000 Belarusian roubles ($15). Mr Sheremet said the conviction would nevertheless end his career as an ORT journalist.

The regional court in Grodno, upheld the sentences in a final verdict that is not expected to be appealed again.

The reporters' defence lawyer, Garry Pogonyailo, said: "Justice doesn't exist in Belarus. I never expected a different decision from a judicial body so dependent on the executive power."

Mr Pogonyailo said he would take the case to the Belarus Supreme Court and would also appeal to the human rights committee of the United Nations.

Belarus's president, Alexander Lukashenko, claimed on several occasions that the journalists had been trying to harm the image of Belarus.

Critics of the president, meanwhile, have said the case illustrates the government's efforts to crackdown on the media and opposition groups. **AP, Minsk**

### AMSTERDAM TREATY

## Ireland to hold referendum

The Irish Republic will hold a referendum on the Amsterdam treaty on closer ties within the European Union on May 22, a government spokeswoman said yesterday.

The treaty, which succeeds the Maastricht treaty of 1992, aims to strengthen co-operation on crime, health, unemployment, consumer protection and the environment within the EU.

The referendum is designed as a safety measure to avoid potential legal challenges to the treaty in the future and is widely expected to bring out a strong Yes vote.

A European Commission survey published in November showed that more than 80 per cent of Ireland's voting population supported EU membership. But the referendum is likely to bring out worries over the country's neutrality. Some feel a Yes vote would tie Ireland to supporting EU military objectives which could compromise its neutrality. **Reuters, Dublin**

### SPORT

## Group to defend self-regulation

International sports governing bodies agreed yesterday to set up a working group to defend themselves against the European Commission's attempts to extend competition rules to sport.

The group will be chaired by Juan Antonio Samaranch, the president of the International Olymic Committee, and include leading representatives of five major sporting organisations such as Uefa, the European football association, and the FIA, the motor racing authority that runs Formula One.

The initiative, adopted at a meeting organised by the IOC in Lausanne, confirms the determination of sports bosses to defend themselves against what they see as the EU authorities' attempt to supplant world sport's tradition of self-regulation.

A statement by the IOC said the meeting had agreed to "step up exchanges of information and to confer on areas of common interest" involving relations between sport and the EU.

Max Mosley, president of the FIA said: "We are very pleased. It seems that all major sports organisations now have a common position on this issue." **Jimmy Burns, London**

**YUGOSLAV COALITION** Socialists and Radicals form new government

# Milosevic risks further isolation

By Guy Dinmore in Belgrade and David Buchan in London

President Slobodan Milosevic yesterday risked leading rump Yugoslavia deeper into international isolation by forming a coalition government in the Serbian republic between his Socialists and the ultra-nationalist Radical party headed by Vojislav Seselj, a former paramilitary leader.

The Radicals were given 15 posts, including the ministries of information and privatisation, in the new government headed by Mirko Marjanovic, the Socialist prime minister who has been in office since 1994.

Mr Seselj was appointed one of five deputy prime ministers. The neo-communist Yugoslav United Left, led by Mira Markovic, the wife of Mr Milosevic, was given four posts.

Vojislav Seselj, Radical party leader, becomes a deputy PM

The Socialists were forced to form a new government after its previous coalition lost its parliamentary majority in elections last September in which the Radicals made strong gains. Mr Seselj, who organised paramilitary units during the wars in Bosnia and Croatia, is an unabashed nationalist. His party's manifesto proclaims as its goal the formation of a Greater Serbia that would include chunks of territory of former Yugoslavia.

Robert Gelbard, the senior US envoy to the Balkans, last year described Mr Seselj as a fascist with whom the US could not work. Mr Seselj came within a handful of votes of winning the election for Serbia's presidency last year. Most western embassies in Belgrade refuse to have contact with him, and a UK official said in London yesterday it was "rather worrying that the Serbian government has been broadened in this direction".

The new coalition will have 187 deputies in the 250-seat parliament. As the government was voted in, Serbian security forces launched a fresh offensive against ethnic Albanian "terrorists" in the southern province of Kosovo.

The interior ministry said the operation near the south-west town of Decani began after one policeman was killed and one wounded in an attack by separatists. The main ethnic Albanian party in Kosovo said four Albanians had been killed.

Foreign ministers of the US, Russia, Britain, France, Germany and Italy are to meet in Bonn today to consider their next response to Serbia's crackdown in Kosovo, which has claimed the lives of over 80 Albanians.

Madeleine Albright, US secretary of state, who will chair the meeting, said Serbian police were digging in rather than withdrawing.

However, the Contact Group's meeting is likely to focus on negotiations rather than sanctions. Russian reluctance to condone any new sanctions is likely to blunt US pressure to freeze Belgrade's foreign assets.

Belgrade analysts said Mr Seselj would have no real powers but that by bringing him into the government Mr Milosevic was removing the threat that his main rival might usurp his position as the rallying figure of Serbian nationalism.

# Italy's PM moves to avert strike

By James Blitz in Rome

Romano Prodi, prime minister, held talks last night with union leaders over proposals to boost employment in southern Italy, amid fears that the issue could trigger a general strike later this year.

Leaders of the three main trade unions arrived at Palazzo Chigi, Mr Prodi's Rome headquarters, demanding that the government should set out a range of measures to create jobs in the south, where unemployment in some places is as high as 25 per cent. Tensions between government, unions and employers have resurfaced at a time when all sides are keenly awaiting today's verdict of the European Monetary Institute on Italy's suitability for European economic and monetary union.

The trade union leaders were last night expected to raise a range of issues.

They are seeking clear indications of the role to be played by a new government Agency for the South, measures to reduce the black economy and planned investments.

Concern has also focused on the amount of money to be made available for the south in the government's draft budget for 1999, due to be published before the end of April.

Although some L29,000bn ($16bn) of investment is technically available and a further L12,000bn could emerge in the draft budget, the trade unions are seeking firm guarantees that the cash will actually be spent.

A second and potentially far more serious issue that was certain to be raised last night was the government's pledge to publish a legislative bill on a 35-hour week by this Friday.

Confindustria, the employers' union, has warned in recent days that it could abandon two landmark accords on incomes policy agreed with the government and the unions in 1993 and 1996 if the legislation goes ahead.

The accords, which require government, unions and employers to take part in two round-table discussions on income policy each year, have reduced industrial unrest and are deemed to have been important in bringing Italian inflation to record lows.

However, Giorgio Fossa, president of Confindustria, warned this week that the introduction of the legislation would cost 500,000 jobs in a few years if it went ahead because of the impact on labour costs.

Unions are uncertain about Mr Prodi's pledge on a 35-hour week, one which emerged as the price to be paid to Italy's Reconstructed Communist party last autumn to keep the government in power.

Treading the line, Page 9; Emu countdown, Page 15

# Pay cut protest hits Olympic Airways

By Kerin Hope

Workers at Olympic Airways, the loss-making Greek state carrier, held a three-hour work stoppage yesterday in protest at a radical restructuring of the airline proposed by the Socialist government.

Airline unions have rejected plans for salary cuts of more than 20 per cent and an increase in working hours included in a two-year restructuring scheme announced by the transport ministry.

The confrontation with Olympic is seen as a test of the government's resolve to push through public sector reforms agreed with the European Union earlier this month. The reforms are part of a package of spending cuts aimed at ensuring Greece's eventual participation in the single European currency.

The Socialists are likely to face sustained opposition to schemes for modernising loss-making transport companies and utilities and privatising a group of small state-owned banks.

Responding to a request from Olympic's workers, the Greek Confederation of Trade Unions yesterday called a one-day general strike for April 9 to protest against the new policies.

Olympic's restructuring would be based on plans prepared by Avmark, the international aviation consultants, McKinsey, the US consultancy, and Kantor, the Athens-based management consultants.

The plan would allow Olympic's workers to acquire shares in the company for the first time. It would also limit the power of the unions by requiring employees to sign individual contracts with the airline.

Tasos Mantelis, transport minister, says that if necessary the restructuring will go ahead without union agreement. The government has already passed legislation which provides for overruling collective agreements on pay and working conditions at loss-making state enterprises.

The unions blame Olympic's management, which is appointed by the government, for failing to implement a restructuring agreed with the EU in 1994 in return for a capital injection and debt write-offs amounting to more than Dr500bn. ($1.5bn)

WORLD TRADE

# EU puts pressure on China over WTO

By Guy de Jonquières in London, James Kynge in Beijing and Neil Buckley in Brussels

The European Union plans to urge Zhu Rongji, China's prime minister, to dispel growing doubts about Beijing's attitude to joining the World Trade Organisation by stating that his government is firmly committed to membership.

The demand, to be made at next week's EU-China summit in London, is prompted by concern in Brussels and Washington that Beijing's previous enthusiasm for early WTO entry is starting to wane.

EU officials said China appeared to be dragging its feet over promises to speed up the WTO talks by tabling bolder offers to lower trade barriers in services and cut industrial import tariffs.

Western governments are also disturbed by Beijing's recent suggestions that they should soften their stance towards its WTO application in exchange for its commitment not to devalue its currency.

Although EU leaders will praise Mr Zhu next week for his determination to maintain the value of the currency, the yuan, they will insist China's exchange rate policy is unrelated to WTO entry.

Western officials are worried that the preoccupation of China's new leadership with accelerating domestic economic reforms has led it to downgrade the importance of the 11-year-old WTO talks.

Chinese officials have indicated they want to make progress in restructuring the country's banking sector before agreeing to further substantial opening of its market to foreign competition. They say financial institutions need time to recapitalise and train staff.

However, the EU will tell Mr Zhu that internal reform and trade liberalisation should run in parallel. They will also deliver what one EU official called "a fairly stern message" that China must respect earlier liberalisation promises by making new WTO offers soon.

The EU is disappointed that Beijing has so far failed to make good on a recent agreement in principle to adopt a more forthcoming approach to liberalising its services sector, particularly financial services.

Although China is said to be working actively on improving its WTO offer, it is balking at EU demands that it commit itself to firm deadlines for opening its services market.

China has also yet to implement an agreement, reached with Sir Leon Brittan, EU trade commissioner, in October, to use a new negotiating formula, designed to eliminate its steepest industrial tariffs.

WTO members, which are due to hold their next round of talks with China next month, are still waiting for Beijing to table a tariff offer which it promised to make by the beginning of this month.

The European Commission is expected to approve today a paper outlining the EU's strategy towards China. As well as proposing annual EU-China summits, the paper states Europe's main demands in the WTO talks.

Officials said the paper was designed to set out firm goals for China's membership terms and to show that the EU was prepared to be flexible, provided Beijing accepted liberalisation timetables.

The officials said clear timetables were needed to reassure western investors in China. The paper also calls on Beijing to liberalise foreign investment laws before joining the WTO.

The paper proposes closer co-operation in a number of areas, including EU technical assistance for Chinese financial, legal and administrative reform, science, training and the environment.

It also proposes a relatively low-key approach over human rights.

# Axe over hopes for MAI accord

By Guy de Jonquières

Leading industrialised countries will consider next month whether to continue efforts to draft binding rules for foreign investment, after conceding they will be unable, for the second time, to meet the deadline for an agreement.

But diplomats said some of the 29 members of the Organisation for Economic Co-operation and Development were doubtful about backing a proposal to extend negotiations on a Multilateral Agreement on Investment.

The project has also been dealt a blow by the decision by Frans Engering, chairman of the negotiations since they began in 1995, to step down after the OECD's annual ministerial meeting in late April.

Mr Engering said yesterday that the pressure of his responsibilities as a senior Dutch foreign ministry official made it impossible for him to continue as chairman. His successor has yet to be named.

Mr Donald Johnston, OECD secretary-general, denied failure to reach an agreement meant the talks were dead. He said they had made "enormous progress" but declined to say how much longer it would take to complete them.

OECD members remain far apart on several issues, including French and Canadian demands that the agreement should exclude cultural activities, and the European Union's insistence that its members be allowed to continue giving preferential treatment to one another's investors.

The negotiations have also been held up by the continuing US and EU dispute about US sanctions designed to penalise foreign investors in Cuba, Iran and Libya.

The talks were supposed to end more than a year ago, but the deadline was extended until next month.

# Talks on Manila power plant

By Justin Marozzi in Manila

National Power Corporation (Napocor), the Philippines' largest state-owned utility, yesterday said it would begin negotiations with an Argentine group this week on a $450m contract to rehabilitate a hydroelectric power plant.

Guido Delgado, Napocor president, expressed optimism the talks would quickly produce results. "Definitely, we will award the contract before the end of President Ramos' administration," he said.

In February, Napocor approved an offer submitted by Impsa of Argentina. Impsa, which originally submitted an unsolicited bid, was entitled to match any other offers under local build-operate-transfer regulations. Napocor said Impsa had subsequently lowered its price to 1.3 pesos a kw-hour to match the offer made by a consortium led by First Private Power Corporation (FPPC), a local group.

The contract to rehabilitate the Caliraya-Botocan-Kalayaan hydroelectric power facility in Laguna, outside Manila, has been dogged by legal problems.

FPPC earlier succeeded in obtaining a temporary restraining order from a regional court stopping Napocor from awarding the contract to Impsa.

Soon after the order expired last month, the government gave Napocor the go-ahead to begin negotiations with the Argentine group.

Industry analysts, however, have expressed concern that the project, like many other government-sponsored tenders in the Philippines, will be derailed by the courts.

Peter Garrucho, president and chief executive of FPPC, said Napocor's decision to press on with negotiations would not prevent him from continuing his group's case against the utility.

# Fittest survive in China's battle against fall-out from east Asia's economic crisis

Low value added sectors are feeling most pain from the shake-out, writes **John Ridding**

As China wrestles with the fall-out from east Asia's economic crisis, a complex pattern is emerging. Reports from the factory floor reveal a sharp variation in the consequences between sectors, companies, and regions.

On the one hand, slowing exports are helping to cool the domestic economy, pushing strugglers to the wall. On the other, the strong appear surprisingly resilient. The result could be a shake-out that might shift the pattern of industrial production, pushing companies up-market and sharpening competitiveness.

Worst hit are the low value-added sectors and those most exposed to south-east Asia. Textiles shipments, for example, dropped by almost 10 per cent in the first few months of the year. Shoes and low-end electronics companies are fearful of the impact of devaluations among regional rivals.

A survey by the municipal government of Guangzhou, the capital of China's most dynamic province, showed local shoe and textile companies expect exports to fall by between 20 and 30 per cent this year. While the main problem for low-end manufacturers is price competition for markets in the US and Europe, Chinese exporters exposed to regional markets are also vulnerable.

In particular, the south-east province of Yunnan has based its development strategy on sales of manufactured products as well as farm produce to south-east Asia. Figures released last week in Hong Kong show a sharp fall in re-exports to the region, principally from China. Re-exports to Singapore in January fell by 28 per cent, year on year. Taiwan and Japan also had double digit declines.

The good news was that the same figures showed double-digit percentage increases to many countries in Europe and to the US, much bigger markets for Chinese producers than the neighbouring economies.

"There is still strong demand in the US and Europe for our cordless phones and electronic learning products," says Allan Wong at V-Tech, the Hong Kong electronics company which exports from its plants in southern China.

Guangdong Kelon, one of China's largest domestic appliance manufacturers, admits its hopes of developing sales in south-east Asia have been torpedoed. But this has been more than offset by a contract to supply a quarter of a million refrigerators this year to a new US client.

Dou Lee, Guangdong Kelon's vice-president, acknowledges 1998 will be a tougher year. But he still expects the group's rapid expansion will be sustained and believes government measures will ease pressures for Chinese exporters.

The abolition of bank lending quotas and a relaxation of credit, he says, will encourage banks to lend on a commercial basis. Strong companies will consequently benefit. At the same time, the re-instatement of refunds for value added tax on imports of capital equipment will help profit margins.

A complete refund of the 17 per cent tax will reduce the company's prices by 3.5 per cent, Mr Lee estimates. "Different companies will be affected to different degrees," he says. "But the higher the value added, the greater the benefit."

Mr Wong at V-Tech believes these fiscal measures will underpin China's attraction as an export manufacturing base. He also plays down the threat from regional rivals, at least for Chinese companies with relatively low labour inputs and high component costs.

Imported components account for half of V-Tech's production costs, so devaluation would bring few benefits. He says the perceived advantages of manufacturers in Korea, Thailand and the other crisis-hit countries will be eroded by inflation in the medium term, while in the short term, shipments will be disrupted by credit shortages and bankruptcies.

"On paper, Thailand, Malaysia and Indonesia seem favourable because of devaluations," he says. "But they also pose a lot of question marks. If you have to import a lot of components and raw materials there is not much advantage to move."

A 30-minute journey from V-Tech's Guangdong base, similar sentiments are expressed at one of the province's many toy companies.

"The cheaper end of the market will definitely feel the pain, but they have been drifting from China for a long time," says the marketing director. "The main worry for most of us is not being undercut by the Asean [Association of East Asian Nations] producers, or even the Koreans. It is whether we see a slowdown in the US. As long as we don't then I expect export growth to continue."

*Additional reporting by James Harding and James Kynge*

Downturn reignites rivalries, Page 8

**Made in China**

Exports by product

Growth assumption (annual % change)

| Description | 1997est | 1998* |
|---|---|---|
| Electrical, machinery, audio-visual equipment | 28.3 | 3.1 |
| Woven apparel | 18.5 | 12.6 |
| Toys and sports equipment | 24.2 | 17.6 |
| Footwear | 19.7 | 14.6 |
| Machinery | 26.2 | 6.1 |
| Knit apparel | 55.7 | 25.1 |
| Leather articles, saddlery, bags | 17.8 | 13.1 |
| Furniture and bedding | 23.9 | 7.1 |
| Plastic | 34.2 | 16.1 |
| Optical, medical, precision equipment | 31.9 | 10.1 |
| All others | 18.2 | 8.1 |
| Total | 21.8 | 9.8 |

Exports by destination

Growth assumption (annual % change)

| | 1994 | 1995 | 1996 | 1997est | 1998* |
|---|---|---|---|---|---|
| Asia | 39.3 | 25.5 | -0.5 | 19.5 | 7.6 |
| Japan | 38.2 | 32.5 | 8.5 | 2.8 | 1.5 |
| Hong Kong | 48.7 | 11.2 | -8.5 | 34.3 | 13.5 |
| Asean-4** | 56.8 | 44.6 | -7.8 | 33.3 | 0.0 |
| NIE-3*** | 39.8 | 44.7 | 8.0 | 20.2 | 6.0 |
| Other Asia | 12.1 | 35.9 | -4.7 | 17.1 | 16.0 |
| US | 28.2 | 13.5 | 8.8 | 22.6 | 14.0 |
| EU | 24.5 | 24.0 | 3.9 | 19.8 | 10.0 |
| Others | 11.3 | 18.9 | 1.9 | 27.4 | 15.0 |
| Total | 31.9 | 23.0 | 1.5 | 21.0 | 8.0 |

Source: Jardine Fleming

* Forecast ** Malaysia, Thailand, Indonesia, Philippines *** South Korea, Singapore, Taiwan

INTERNATIONAL

# Arms monitor hails Iraqi co-operation

By Laura Silber at the UN in New York

The first round of United Nations inspections of Iraq's presidential sites this week will mark an important test of Iraq's pledge to allow full access to suspected weapons sites.

Under the accord struck last month with Iraq, senior diplomats will accompany UN weapons inspectors on visits to eight presidential sites. A group of 18 diplomats yesterday arrived in Baghdad and, along with two diplomats resident in Iraq, will be briefed on how the inspections will proceed.

The first visits to presidential sites will be "base line" inspections. They will begin as Richard Butler, chief UN weapons inspector, yesterday was wrapping up three days of talks with senior Iraqi officials, including Tariq Aziz, deputy prime minister, on the speeding up of the inspection process, and attempts to close the files on chemical weapons and missiles, according to a UN spokesman.

Mr Butler has hailed "the new spirit of co-operation which has appeared" since Iraq signed the accord with Kofi Annan, UN secretary general. He said yesterday he had made "great progress" during his visit.

Both Iraq and Unscom, the UN commission charged with dismantling Iraq's deadly weapons, are pledging a new era of co-operation. But Unscom officials confirmed yesterday that Iraq had told the UN that a leading scientist in the country's biological weapons programme had been arrested while trying to flee abroad.

Ewen Buchanan, Unscom spokesman, said Iraq had informed the UN by letter that Nassir al-Hindawi had been arrested and turned over some 200 pages of documents – "the majority of which we had already seen".

Nizar Hamdoon, Iraq's ambassador to the UN, has told the New York Times that Mr Hindawi was in an Iraqi prison after being discovered with government documents relating to the biological weapons programme.

In Washington, William Cohen, the defence secretary, said he could not tell whether the reported arrest of "this particular individual would be an intelligence loss to the United States". He declined to comment on whether US intelligence organisations had assisted the official in his attempt to leave Iraq.

But Mr Cohen said the Iraqi action could make it even more difficult for Iraq to convince the UN of its full compliance with weapons inspections and to win a lifting of sanctions imposed after the Gulf war.

An Unscom official admitted that he regretted that UN biological weapons experts had never had the opportunity to interview Mr Hindawi, who was an expert in anthrax and botulism – without the presence of Iraqi secret police.

But Unscom yesterday largely played down the impact of Mr Hindawi's arrest. Western diplomats said that although he was an important scientist, no single individual in Iraq's weapons development was "critical."

According to Unscom officials, Mr Hindawi had recently contributed little to UN attempts to assess the scale of Iraq's current biological weapons programme. Although he was a "key adviser from the mid-eighties until 1989", his involvement had subsequently diminished and inspectors had not sought to interview Mr Hindawi in the past year.

As part of their mission, UN officials ask to interview dozens of Iraqi scientists involved in chemical, biological and missiles programmes who are always accompanied by Iraqi officials.

Palestinian boys hold a photo of Kofi Annan, United Nations secretary general, who yesterday visited Jabaliya refugee camp in the Gaza Strip before holding talks with Benjamin Netanyahu, Israeli prime minister, and Yitzhak Mordechai, the defence minister, about Israeli withdrawal from south Lebanon *Picture AP*

# Kenyans rue fall from grace

By Michela Wrong

"So Clinton isn't coming to Kenya," said the Nairobi travel agent with a shake of her head. "It seems nowadays, no one wants to talk to us."

If the government is busy playing down President Bill Clinton's decision to sidestep Kenya during his six-nation Africa tour, its significance is not lost on ordinary Kenyans, increasingly haunted by the sense of inhabiting a pariah state.

His no-show will be just the latest in a series experienced by a country that was once automatically included in the itineraries of visiting VIPs in tribute to its image as Africa's democratic success story.

Nairobi was bypassed when Warren Christopher became the first US secretary of state in a decade to visit the region in 1996. Instead, President Daniel arap Moi – accustomed, as the oldest of East Africa's leaders, to particular respect – was summmoned to the northern Tanzanian town of Arusha.

Madeleine Albright, Mr Christopher's successor, also avoided Kenya in a cross-continent tour last December, rubbing salt into the wound by lavishing compliments on its long-standing rival, Uganda, which she praised as a regional "beacon of hope".

In January James Wolfensohn, head of the World Bank, pointedly avoided dropping in on Kenya after a regional summit in neighbouring Kampala, although Nairobi provided a natural stopover on his way to Ethiopia.

Mr Clinton is scheduled to see Mr Moi today at a summit of regional leaders in Uganda. But in private, Kenyan officials wax bitter. They resent the fact that while Kenya reluctantly swallowed the multiparty pill forced on it by the donors, it is Uganda, a country that continues to reject party politics, that is now being patted on the back.

But the accusation of western hypocrisy misses the point. For donors, backing an International Monetary Fund and World Bank aid freeze initiated last year, the corruption, mismanagement and ethnic thuggery characterising Mr Moi's administrations has removed much of the content from Kenya's political reforms.

Hopes that the 73-year-old president would seize the opportunity offered by his December election victory to sweep away a system of patronage have yet to be fulfilled. Instead, the new cabinet includes most of the scandal-tainted names from the old one.

# ILO sets out employment rights

By Robert Taylor, Employment Editor

In an attempt to improve labour standards across the world, the International Labour Organisation yesterday issued a declaration of fundamental employment rights with an "appropriate follow-up mechanism".

But Michel Hansenne, the director-general, faces stiff opposition from within the organisation's governing body this week from some developing countries which see his initiative as a protectionist proposal. The declaration is likely to divide delegates at the annual conference in June.

The draft declaration argues the ILO needs a "specific mandate" to ensure "the protection and promotion on a universal basis of the fundamental rights of workers".

The ILO wants affiliate members to accept that the "promises of economic development for social progress cannot be fulfilled on a lasting basis" without basic rights covering freedom of association and collective bargaining; suppression of all forms of forced or compulsory labour; "effective abolition of child labour" and promotion of equality of opportunity that eliminates gender job discrimination.

The ILO proposes to monitor adherence to these rights through publishing an "objective annual survey" of each state to monitor whether they carry out their obligations. The director-general would produce a global report every year to "take stock of significant trends and progress".

The ILO does not intend to weaken or sideline existing machinery for the ratification and enforcement of its legally binding conventions.

It denies that its proposal is protectionist. "The ILO is not competent in trade matters and it is not for the organisation to engage directly in a substantive discussion on removing barriers to the liberalisation of trade," says a report to the governing body.

But it adds that the ILO is "part of the multilateral system" and is "entitled to proclaim that the declaration should not serve as a basis or pretext to anyone to fail to comply with obligations by which they are bound under the multilateral trade system".

Mr Hansenne would like to see an endorsement of its fundamental rights declaration at the June conference.

# Export credits rise for developing nations

By Peter Montagnon, Asia Editor

Official export credits to developing countries have increased sharply during the 1990s, according to the World Bank's report on Global Development Finance.

Separately the report underlined that growth in Latin America and East Europe was likely to be damped by the Asian crisis.

The Bank noted that between 1990 and 1996 flows of official export credit finance to developing countries averaged $110bn a year, up from $83bn in the second half of the 1980s.

Driving the expansion has been more aggressive export promotion by many countries and the changing nature of international financing for developing economies, which has shifted towards project finance and direct investment.

Roughly half of new export credit agency commitments in recent years has gone to support project financing, mainly for large infrastructure projects in power generation, telecommunications and transport.

But there was a 5 per cent decline in new commitments in 1996, probably repeated in 1997, reflecting growing concerns over the macroeconomic imbalances and the health of the banking sector in some countries.

Aggregate figures for export credit agency performance are only available with a significant time lag, but the bank noted that net cash flow of the 41 agencies that are members of the Berne Union totalled $1.5bn in 1996.

This was the first surplus since before the debt crisis of the 1980s and reflects increased recoveries of moratorium interest under Paris Club rescheduling agreements.

The total exposure of export credit agencies to developing countries at the end of 1996 was $463bn, or 22 per cent of the total debt owed by developing countries.

The Bank said Latin America was affected by the contagion spread by the Asian crisis, with sharp falls in the stock markets of Argentina, Mexico and Brazil during October. But they were able to weather the storm because of their stronger financial systems, because they had not experienced lending booms similar to east Asia and because of flexible interest rate responses.

However, growth in Latin America will be slower this year as a knock-on effect of the Asian crisis, the Bank argued.

There were similar ripples in eastern Europe, the Bank noted, adding that there was evidence of vulnerabilities similar to those of east Asia. Large current account deficits have emerged, notably in the Baltic states, Romania and the Czech Republic and Slovakia. Short-term debt has increased in some countries, although the stock of short term debt remains low.

Moreover, in contrast to east Asia, public sector deficits are large in Russia, Turkey and the Ukraine.

*Global Development Finance, World Bank, Washington*

Boats, planes and capital flows, Page 14; Editorial Comment, Page 15

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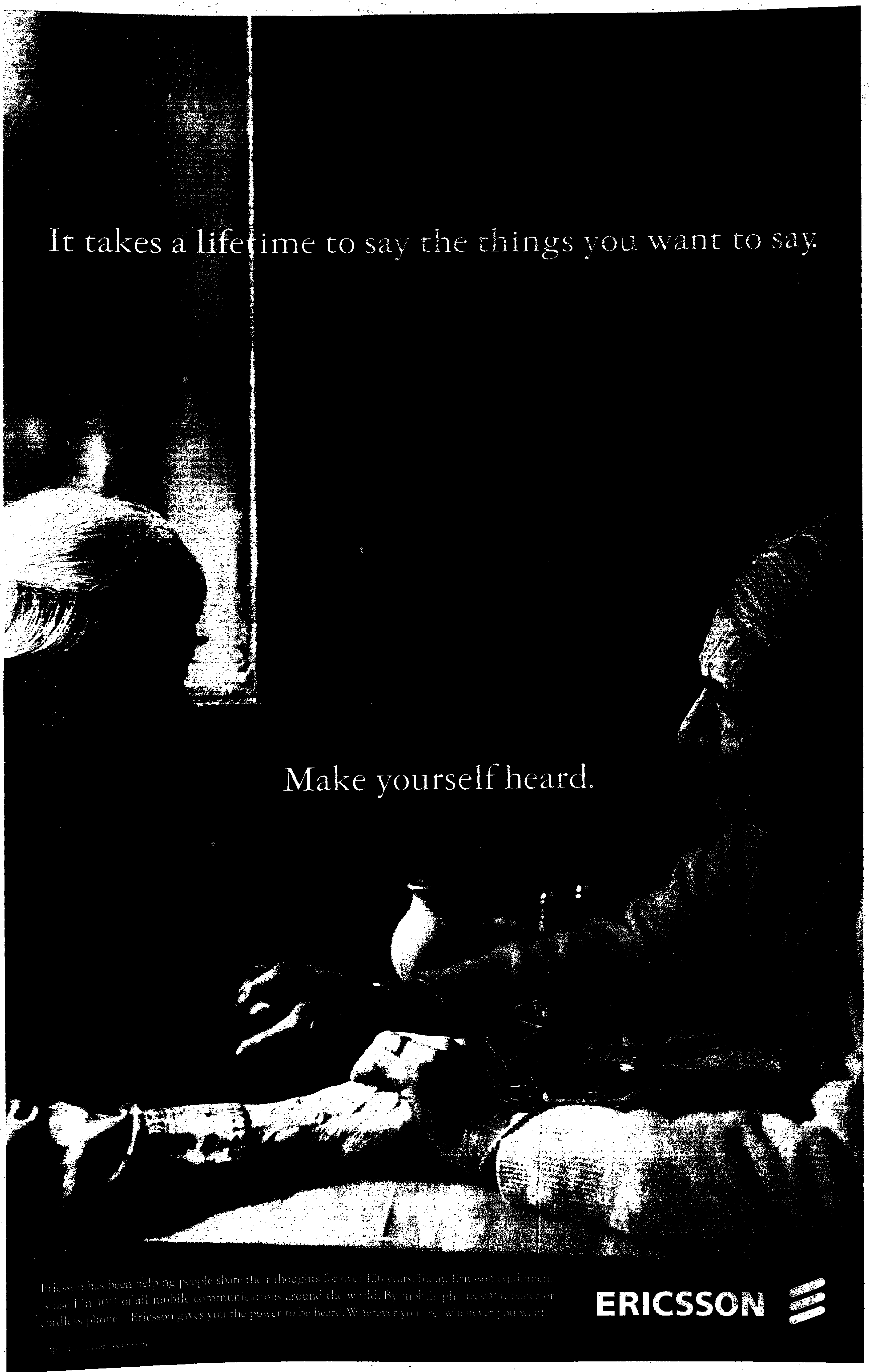

# Venezuelan aluminium sale collapses

By Raymond Colitt in Caracas

The privatisation of Venezuela's aluminium producer, CVG, one of the world's largest, looked set to be postponed yesterday after the last qualified consortium withdrew.

The government's privatisation agency, FIV, confirmed that Sural and Alentuy, the Venezuelan partners in the consortium, had *informed it of the consortium's* withdrawal. Alberto Poletto, head of the FIV, was expected to officially announce the postponement late yesterday.

The postponement would mark a major setback for the government's attempt to boost foreign investment.

The consortium members, which include the UK's Billiton, France's Pechiney, Century Aluminum of the US, as well as the two Venezuelan companies, had met Mr Poletto earlier, apparently to *discuss the $2.1bn base price*, the cost of energy supply, and the extent of the bauxite concession.

For more than two years the Venezuelan government has faced staunch labour and congressional opposition to the privatisation.

Last week two other consortia, including the world's leading aluminium companies, withdrew from the process. Alcoa of the US and Alcan of Canada said the acquisition agreements failed to provide "the legal *certainty to be expected in a* commercial transaction." Other reasons for their withdrawal included the "minimum bid price, the poor performance of the industry over the past 12 months, and the increased energy and operating costs." These factors had made the sale incompatible with "shareholders' objectives of pursuing investments that return the cost of capital," they said.

The consortium including Norway's Norsk Hydro and *Reynolds Metal of the US* said they would not bid, citing large "risk exposure and liabilities".

CVG is one of the world's largest and the last remaining state-owned aluminium complexes with a 635,000 tonne/year capacity. Venezuela is considered to be one of the lowest-cost aluminium production sites because of its cheap hydroelectricity and ample supplies of natural gas and minerals.

The company owns two aluminium smelters, a car*bon anode producer and a* bauxite plant.

However, it is saddled with a $1.25bn debt, $630m of which is owed to international creditors, including France's Paribas and Germany's KFW.

A six-day strike by employees damaged part of the production line. The labour action came on top of a base sale price for the privatisation considered by many to be on the "high-end." Merrill Lynch, the investment bank managing *the sale, is said to* have recommended a base price of around $1.8bn.

**MEXICAN DRUGS PROBE** TRAFFICKERS TRIED TO LURE PRESIDENT'S BROTHER INTO ILLICIT REAL ESTATE DEAL, SAYS PROSECUTOR

# Cartel 'laundered millions' through bank

By Leslie Crawford in Mexico City

Drug traffickers laundered millions of dollars after buying a Mexican bank in 1995, and they tried to lure President Ernesto Zedillo's brother into an illicit real estate deal, according to Mexico's special prosecutor for drug crimes.

An investigation led by Mariano Herrán Salvatti, the prosecutor, is providing the first glimpses of how drug cartels have infiltrated Mexico's weak banking system, and their attempts to ensnare leading members of Mexico's political and business establishment.

The government last week confirmed that the Juárez cartel, the most powerful criminal organisation in Mexico, had taken advantage of Mexico's financial turmoil in 1995 to buy a small domestic bank.

The real owners of Grupo Financiero Anáhuac were uncovered only after regulators detected fraud at the bank in November 1996. By then, Mr Herrán Salvatti estimates the cartel had laundered more than $50m through Anáhuac.

He believes the cartel was trying to establish a new base of operations in Chile, and was using the bank's subsidiaries in the Cayman Islands to channel the proceeds of its drug trade.

Judges last week issued 15 arrest warrants in connection with the case, but only one suspect, Juan Alberto Zepeda Novelo, has been detained. Mr Zepeda Novelo was the director of oil projects at Bufete Industrial, one of Mexico's largest construction companies, and was charged at the weekend with using drug money to buy shares in Anáhuac.

The presence of drug cartels in the heart of Mexico's financial system has dismayed Mexican bankers. The cast of characters who have become trapped in the scandal, however, provides a cautionary tale on the pitfalls of doing business with strangers.

In 1995 Anáhuac was a small, recently licensed bank, but it was careful to hire a son and a nephew of Miguel de la Madrid, the former Mexican president, to confer respectability on its operations and attract the right kind of client.

Mr de la Madrid's son, Federico, told the newspaper Reforma last week he knew nothing of the alleged sale of Anáhuac shares to drug traffickers. "I was hired to promote new businesses and win clients. I was not privy to decisions taken by members of the board," he said.

Meanwhile, Mr Zepeda's son Juan, and his business partner, Jorge Bastida Gallardo, who has evaded arrest, gained entry into Anáhuac by boasting of their close relationship with an influential trade union leader who is also a prominent member of the ruling Institutional Revolutionary party.

The two men then approached Rodolfo Zedillo, the president's brother, and offered $50m for a hotel project in the heart of Mexico City's financial district. Mr Rodolfo Zedillo, an architect, said the would-be financiers "suddenly vanished" when his lawyers began making inquiries into the origin of their funds.

"Organised crime does not respect hierarchies or professions," Mr Rodolfo Zedillo said. "We are all exposed to this threat."

Anáhuac also raised suspicions because its brokerage charged risible commissions. One representative of a European bank said: "We did business through Anáhuac for a while, but we began to suspect something was amiss because we couldn't understand how they made a profit on such low commissions."

From next month, Mexican banks and brokerages will be required to report this kind of "suspicion" to the National Banking and Securities Commission, following the introduction of laws to detect and combat money laundering.

With Mexican cartels now controlling a third of the $50bn market for illegal drugs in the US, according to US government officials, Mexican banking regulators no longer doubt that drug money is being laundered through Mexico's financial system, but decline to put a figure on it.

Charles Intriago, editor of Money Laundering Alert, the Miami-based newsletter, agreed that accurate figures were hard to gauge, but said: "It could be as much as $8bn a year, which means $22m a day." Mr Intriago said Mexico's new law to combat money laundering was more comprehensive than legislation in the US, which did not cover the securities industry.

Even in Mexico, however, drug cartels will be able to exploit loopholes in the new regulations, particularly because foreign exchange houses, an important point of entry of drug money into Mexico, are not subject to the same reporting requirements as banks.

Mr Intriago believes most drug funds are spirited away to other financial havens, but a significant portion stays in Mexico, and is channelled into real estate projects, car dealerships, transport companies, foreign exchange bureaux and tourism developments.

Mariano Herrán Salvatti: his inquiry shows how drug cartels have infiltrated banking Picture AP

# FBI warns of soaring cybercrime

By Richard Wolffe in Washington

Criminal cases against computer hackers have more *than doubled this year as* the ranks of teenage hackers were joined by industrial spies and foreign agents, the US Federal Bureau of Investigation warned yesterday.

The FBI told a hearing of senators that it had recorded a significant increase in its pending cases of computer intrusions, from 206 to 480 this year.

The FBI's leading experts on so-called cybercrime said the US was increasingly vulnerable to an attack which could undermine vital services such as telecommunications, banking and the supply of oil and gas.

Michael Vatis, head of the FBI's national infrastructure protection centre, said: "Although we have not experienced the electronic equivalent of a Pearl Harbor or Oklahoma City as some have foretold, the statistics and our cases demonstrate our dangerous vulnerabilities to cyber attacks."

The warning follows the arrest and questioning of an Israeli teenager, who is accused of working with accomplices in the US and Israel to mount the most sustained attack on the Pentagon's computer systems. Ehud Tannenbaum is accused of breaking into unclassified personnel and payroll records.

However, Mr Vatis said hackers were also attacking vital domestic services in the US. He told how one hacker had broken into telephone systems in Massachusetts to cut off communications at a regional airport and disconnect the control tower last year. A teenager last week agreed to serve two years' probation after pleading guilty to disrupting communications at Worcester regional airport for six hours.

Another hacker in Florida is accused of breaking into the 911 emergency phone system last year, which jammed all emergency services calls in the region.

*The* FBI said the dangers of cybercrime were rising because of the increased availability of hacking tools on the internet, as well as electronic hardware such as radio frequency jamming equipment.

Last week John Hamre, US deputy defence secretary, toured European governments to warn of the risks of computer crime and discuss possible counter-measures.

In spite of the publicity surrounding hackers, industrial espionage remains the most costly source of cybercrime, senators on the joint economic committee heard yesterday.

Last July an unnamed computer communications company sent a malicious computer code which diverted communications from one of its rivals. The FBI estimated the victim company suffered losses of more than $1.5m.

Other FBI officials told how the US was increasingly the subject of economic attack by foreign governments using computers. Larry Torrence, of the FBI's national security division, said foreign agents were "aggressively targeting" business information belonging to US companies.

More frequently, criminals are using the internet to defraud potential investors with bogus investment schemes and banks.

Fraudulent schemes on the internet were becoming "epidemic", said Neil Gallagher, of the FBI's criminal division. One pyramid scheme, called Netware International, had recruited 2,500 members across the US by promising to share profits of 25 per cent a year in a new bank which it was claiming to form.

Investigators said they had seized almost $1m to date.



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BI warns
soaring
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COMPUWARE

# Malaysia cuts economic growth forecast

By Sheila McNulty in Kuala Lumpur

Malaysia yesterday revised its 1998 economic growth projection down to a more realistic 2 per cent to 3 per cent, from 4 to 5 per cent, but failed to deliver the structural changes economists had sought to revive investor confidence.

Economists had hoped the government's eventual recognition that growth would slow dramatically from 7.8 per cent last year – some economists project it will fall to 0.7 per cent – might prompt more significant action. This would include lifting restrictions on foreign ownership in banking and other sectors, as well as relaxing racial quotas governing business. The initiatives would lead to more competitiveness and benefit the economy in the long run.

Instead Anwar Ibrahim, finance minister and deputy prime minister, made what observers considered vague commitments to develop the financial system, strengthen the banking sector, improve transparency and gradually liberalise.

"Essentially a case of sweeping the problems under the carpet," was how Neil Saker, head of regional economic research at Soc-Gen-Crosby in Singapore summed up the government's latest initiative.

Economists dismissed Mr Anwar's insistence that no public funds would be used to bail out corporations in trouble, given that Mahathir Mohamad, the prime minister, has expressed support for helping Malaysia's best companies. Analysts have described a string of corporate restructurings in recent weeks as blatant bailouts.

Without structural adjustments, economists suspected the authorities would have no choice but to inject much needed funds for banking and other sectors via resources such as the national pension fund and the Employees' Provident Fund and by reducing the statutory reserve requirement (SRR) of banking institutions. The SRR determines the amount banks are required to place interest-free with the central bank.

Economists believe inflation will be closer to 10 per cent, compared with Mr Anwar's forecast of 7 per cent to 8 per cent, given the sharp recent depreciation in the ringgit against the US dollar. At one point the ringgit had fallen as much as 48 per cent.

# Asia downturn reignites rivalries between HK and Singapore

Hong Kong says Chinese hinterland is dynamic source of business; the city state says no Asian wants money under China's control. **John Ridding** and **Peter Montagnon** report

Tough times make for tough competition, and the downturn in Asia's financial services industry has fuelled the old rivalry between Hong Kong and Singapore about which centre can rise to pre-eminence as Asia's financial hub.

Fears that Hong Kong could start to lose business to its south-east Asian rival in the run-up to last year's handover proved largely unfounded.

Until the economic crisis struck, Hong Kong's markets were thriving on the back of a roaring stock market and a surge in business from China.

But now things have changed. If Lee Kuan Yew, Singapore's senior minister, detected more of a buzz in Hong Kong than in his own heavily regulated market, then that buzz has become a touch more nervous. This year Singapore has embarked on a significant thrust to build up its own business, particularly in fund management.

The city state has promised a somewhat looser climate of regulation – "if not a big bang than at least a series of thunderclaps," according to the official line – designed to foster enterprise and innovation. It also plans to release an extra S$25bn (US$15.6bn) in government funds for management by the private sector.

Donald Tsang, Hong Kong's financial secretary, plays down the threat.

"I don't think we are working in a zero sum environment. Asia is large enough to accommodate Japan in the north, Hong Kong in the middle, and Singapore down south," he said.

Mr Tsang claimed Hong Kong retained an edge in its role as a financial centre. "In terms of international financial trade I think we are better equipped and we have a better hinterland. We are better equipped in terms of a level playing field and the free flow of information."

Many in the industry underline Hong Kong's strengths. "You cannot ignore the serious benefits that Hong Kong offers in terms of supporting infrastructure and its well supervised but fully deregulated market place," said Stephen Stonefield, chairman of Credit Suisse First Boston in the Pacific region.

"That promotes creativity and innovation, and the importance of Hong Kong as a conduit for capital for China is not going to go away."

A consultative report by a hand-picked group of financial industry executives on which Singapore's reform is based noted the competition from other centres in the region, not just Hong Kong. Japan is going through its own "big bang".

Australia last week announced banking reforms designed to make Sydney more attractive as a banking centre, and at least until the economic crisis struck, Singapore's own neighbours, Malaysia and Indonesia, were busy developing their own markets.

The report said Singapore lagged behind other centres in the development of capital markets and in its ability to attract large international fund managers. The government's response in accepting its recommendations has been a considered attempt to promote Singapore financial services in much the same way as it promoted the electronics industry.

"There is tremendous ferment," said Lee Hsien Loong, deputy premier and chairman of the Monetary Authority of Singapore. "Technology is driving it: new products, new ways of doing business, new ways of supervising the business, new risks. And we can't just say this'll pass us by."

Financial services are seen as an important plank for the knowledge-based economy Singapore now aims to become.

So the reform is seen as much more related to Singapore's overall long-term development than an opportunistic attempt to pick off Hong Kong.

Many banks split operations between the two regional hubs. Deutsche Bank, which has its main regional office in Singapore, has its headquarters for equities and debt capital markets in Hong Kong. CSFB heads its investment banking, corporate finance, debt capital markets and mergers and acquisitions in Hong Kong, but has its main regional project finance, fixed income and emerging markets operations in Singapore.

Although Hong Kong is expected to retain its edge for investment banking operations, executives said Singapore's deregulation push would influence future investment decisions. "It seems they are serious about deregulation and that will certainly make people evaluate where to operate," said a senior executive with one US investment bank. "That seems particularly likely in the case of fund management."

Thanks to exchange rate movements Singapore is currently cheaper than Hong Kong as a business centre. Bankers there said legal and accountancy services might be more sophisticated in Hong Kong. But Singapore nowadays wins hands down in terms of English language fluency – which may prove an increasing handicap to Hong Kong – and in its ability to integrate expatriates into the local community, said Hugh Peyman of Dresdner Kleinwort Benson.

Relative performance may depend on matters outside either's control. Bankers in Hong Kong push the territory's Chinese hinterland as a dynamic source of business, noting Singapore's south-east Asian hinterland is now in turmoil. The reply from Singapore is equally robust. "No Asian wants his money ultimately under Chinese mainland control, and that's what Hong Kong is," said one banker.

Besides, the easily accessible Indian subcontinent will become increasingly important as Singapore's hinterland as its economy grows. This battle will run and run.

# Japan's banks to tighten bad debt rules

By Gillian Tett in Tokyo

Japanese banks will tighten their rules for disclosure of bad debts as part of the country's planned "Big Bang" financial deregulation, it was announced yesterday.

The Bankers' Federation, an industry body, pledged to introduce new standards based around US practices, which analysts say will probably lead to a 20 to 30 per cent increase in the amount of reported bad loans.

The step is likely to be welcomed by the markets, since the poor levels of disclosure of bad loans in Japan's banking system have been a key factor undermining investor confidence in recent years.

The Japanese Bankers' Federation at present estimates that the level of bad loans measured according to its current standards is around Y28,000bn ($215bn) for the banks. Most of these loans stem from the collapse of the 1980s property bubble. However, many analysts have long suspected that these were an understatement – particularly as the total has continued to rise in recent years even though the banks have made large write-offs.

As a further blow to confidence, the finance ministry issued separate data earlier this year which showed that problem loans – which include "doubtful" loans as well as clearly "bad" loans – totalled some Y77,000bn.

The new standards which the Bankers' Federation will introduce include two main changes. The first is a requirement that banks report all loans on which interest payments are overdue after 90 days. At present banks report bad loans only if payment is overdue after six months in Japan.

The second requires banks to report all loans where repayments have been restructured. At present, Japanese banks are only asked to report loans where interest is being paid below the official discount rate.

The two changes are similar to those required by the US. The Bankers' Federation did not make any commitment to force the banks to give a more accurate picture of the bad loans held at subsidiaries or related companies. These "secondary" bad loans have often proved to be much larger than anticipated when banks have collapsed in Japan.

The new US-style standards were adopted on a voluntary basis by Nippon Credit Bank (NCB), Long Term Credit Bank (LTCB) and Chuo Trust Bank earlier this month. This led NCB to raise its bad loan figure to Y1,700bn from Y1,250bn, LTCB to raise bad loans to Y1,360bn from Y1,020bn, and Chuo Trust to raise the figure to Y251.6bn from Y231bn.

The Japanese banks are now expected to announce large write-offs of these bad loans when they announce their 1997 fiscal year results.



# New Indonesia cabinet 'could push reforms'

By Richard Lambert in New York

The new Indonesian cabinet could be well placed to influence President Suharto in the direction of reform, Stanley Roth, US assistant secretary of state for East Asia and Pacific Affairs, said in New York yesterday.

Although President Suharto's cabinet appointments had been widely criticised, Mr Roth suggested that the closeness of some ministers to the president could actually give them greater influence than might have been the case if technocrats had been appointed.

"It is way too soon to say that this cabinet will not encourage reforms," he added.

Striking a relatively upbeat tone about the events of the last few days, Mr Roth said that the International Monetary Fund was also showing a willingness to be flexible in the current set of negotiations. "The tone of the debate has changed," he added.

However, some very important issues still had to be resolved. The Indonesian money supply was running out of control and would have to be restrained. Bank and private sector debt had to be restructured, and structural reforms implemented. The budget deficit was increasing rapidly, and would also have to be checked.

Everyone wanted to help the country to restore trade credits in order to let trade resume. But for that to happen it was essential that Indonesia should be seen to be in compliance with IMF agreements.

"We are not yet over the bump," Mr Roth said. Big questions remained about the recommendations which the new cabinet would propose, and the likely response of the president.

The response of the financial markets would also play a crucial part in the outcome.

But real progress had been made in the last 10 days, Mr Roth said.

# Hong Kong land market gets a lift

By Louise Lucas in Hong Kong

Hong Kong's moribund real estate market was buoyed by welcome news yesterday as two plots of government land fetched higher than expected prices at auction.

The positive news lifted prices on the local stock exchange at the end of trading. Sentiment was also lifted by easing interbank interest rates, raising expectations of an imminent cut in prime lending rates.

"These are pretty powerful signals that are pointing towards a turning point," said Michael Leary, head of property research at Lehman Brothers in Hong Kong. He also pointed to a cut in the level of discounting offered by developers on new flats.

The bigger of the two plots, a 13,328 square metre residential site on the exclusive Peak was sold for HK$920m (US$119m), as against market estimates of around HK$700m to HK$800m.

Analysts noted the site carried a rarity premium, as plots on the Peak seldom came up for sale. "If you don't bid when that sort of site comes up you don't get another chance very quickly," said David Faulkner, partner at Brooke Hillier Parker, the property consultants.

The second plot, although only half the size of the Mount Austin Road site on the Peak, was seen as more indicative of market sentiment. Based in Yuen Long, towards the Chinese border, the plot was sold for HK$290m compared with analysts' estimates of HK$260m – HK$280m.

The auction results come after a wave of more negative news for the depressed property market, where prices are down an average 25-30 per cent since the peak last year. Land sold by tender earlier this month went for sharply lower than expected figures, and developers have been discounting new flats brought to market.

Property transactions have been contracting sharply: in February, deals were valued at HK$16.8bn, a fall of 77 per cent compared with the same month last year and of 45 per cent compared with January. While analysts remain cautious in the longer term, investors yesterday were sufficiently cheered to push the benchmark Hang Seng Index up to a close of 11,645, a gain of 0.44 per cent, which came in the final hour of trading. Property stocks led the rise.

# Estrada keeps his star rating

By Justin Marozzi in Manila

Joseph Estrada, the Philippine vice-president and former film star, maintains a commanding lead in the presidential race seven weeks before voting day on May 11, according to the latest poll in Manila yesterday.

A survey from SWS, regarded as the country's most reliable pollster, gave Mr Estrada 28 per cent support, double that of his nearest challengers.

Jose de Venecia, House Speaker and the Ramos administration's candidate, improved his rating from 12 per cent in February to 14 per cent, tied with Alfredo Lim, the mayor of Manila, nicknamed "Dirty Harry" for his robust approach to fighting crime.

The survey revealed that the concerted efforts of President Ramos and Mr de Venecia's campaign managers to discredit the populist Mr Estrada have failed to have an impact on his buoyant ratings. In the past several weeks, photos have been released showing him in a casino with a supposed gambling lord. He has also been linked to financial improprieties through his wife and has even been accused of hatching a plot to assassinate Mr Ramos in 1992.

Mr Estrada, hugely popular among the masses for his swashbuckling Robin Hood performances on screen, has pledged to put the plight of the poor at the top of his agenda and has vowed to stop "exploitation" by foreign investors.

He has promised to surround himself with "the best and the brightest" advisers and to maintain the country's reform momentum.

Mr de Venecia, whose time in the corridors of power dates back to the presidency of the late strongman, Ferdinand Marcos, is not widely trusted and is regarded as a "trapo", meaning a traditional politician.

But his fierce ambition for the top job and the formidable financial and logistical advantages conferred by the administration's backing mean he still has a fighting chance.

Gloria Macapagal-Arroyo, the highly respected and glamorous senator, has an overwhelming lead in the separate vote for vice-president. She has 47 per cent support, almost 30 percentage points ahead of her nearest challenger.

The stock market at least has proved unruffled by the increasingly raucous and bruising election campaign so far, having put on 50 per cent since January.

**NEWS CORPORATION** BLAIR REJECTS CLAIMS OF PRIVILEGED TREATMENT BY GOVERNMENT

# MP demands curb on Murdoch

By Robert Peston and Liam Halligan

Chris Mullin, a senior backbench MP in the governing Labour party, is putting pressure on the government to act against alleged attempts by Rupert Murdoch to distort competition between UK newspapers.

His intervention came as Tony Blair, the prime minister, denied that Mr Murdoch had received privileged treatment from the government over his attempt to make a £4bn ($6.7bn) acquisition of Italy's leading commercial TV network, Mediaset. "I treat Mr Murdoch no differently to anyone else," Mr Blair said.

His statement followed the disclosure that last Wednesday he spoke to his Italian counterpart, Romano Prodi, about Mr Murdoch's bid, which appeared to founder at the end of last week.

An Italian official said Mr Blair asked Mr Prodi whether there would be legal or government obstacles to the deal and was told there should be no such problem.

Meanwhile, Mr Mullin said he was meeting Office of Fair Trading officials in London later this week to discuss a possible amendment to the competition bill to outlaw predatory pricing, contrary to government policy. "My interest is whether the powers of the OFT are adequate to deal with predatory pricing," Mr Mullin said. "I am not convinced they are, and if I can find a way to stiffen them then I will."

The government has already suffered a serious rebellion over the issue in the House of Lords, the unelected upper House of parliament. An amendment on predatory pricing was passed in the House of Lords last month.

One backbencher said at least 40 MPs would vote for a Mullin amendment. "There could easily be a rebellion on this," he added.

Other Labour MPs reacted with alarm to reports of Mr Blair's conversation with Mr Prodi. "We will end up with a feudal trinity running this country," said one. "The prime minister, Murdoch and Buckingham Palace [Queen Elizabeth's official residence in London]."

Mr Blair, speaking at a press conference in Paris, said he dealt with Mr Murdoch at arm's length. "It is not a question of offering assistance to anyone," he said. But it was not his practice to "discuss telephone calls with the Italian prime minister". He went on to say that it was his custom to be concerned about "any business with British interests".

His spokesman insisted that the telephone call had been initiated by Mr Prodi and that the two leaders "spoke about lots of issues".

The opposition Conservative party appeared reluctant to criticise Mr Blair's relationship with Mr Murdoch. One senior Conservative said his party was improving its relationship with Mr Murdoch's newspapers, especially the Labour-supporting Sun, and was unwilling to jeopardise that.

## Magnate finds premier he 'could do business with'

**Robert Peston** and **James Blitz** examine the access that US media tycoon enjoys to Labour party leader with strong mandate

In the run-up to the UK general election in May last year, Rupert Murdoch and his wife Anna are said to have had private dinners with John Major, the incumbent Conservative prime minister, and Tony Blair, his rival from the Labour party.

"Although Rupert's politics are probably closer to Major's, he got on far better with Blair," said a colleague of the media magnate. "He felt Blair was a man he could do business with."

The favourable impression made by Mr Blair paid off handsomely when, eight weeks before polling day, Mr Murdoch converted his most influential UK newspaper, The Sun, into a Labour-supporting tabloid. This was a coup for the Labour leader because his two predecessors had been undermined by The Sun's savage attacks on them.

Mr Murdoch's reward has been privileged access to a prime minister who has one of the largest ever majorities in the House of Commons. "I would not call them friends but they like and admire each other," said a minister.

The closeness of the relationship is attracting media attention following the disclosure that the prime minister spoke to his Italian counterpart, Romano Prodi, last Wednesday about a £4bn ($6.68bn) takeover of an Italian television network that Mr Murdoch was negotiating.

The deal to purchase Mediaset – the commercial television interests of Silvio Berlusconi, the former Italian prime minister and opposition leader – appears to have foundered over the price offered. But according to an Italian official, Mr Blair inquired of Mr Prodi whether there would have been any government or regulatory obstacle to the takeover. He was reportedly told there would not have been any block.

Details of telephone conversations between government heads are rarely disclosed and Blair aides in London said yesterday they would not break this convention.

Mr Blair's chief spokesman dismissed suggestions that Mr Blair was lobbying for Mr Murdoch, while refusing to make any comment about why or whether the Mediaset deal was discussed.

Members of the Italian government said they were not surprised by Mr Blair's keenness to discuss the takeover, given the close connection between politics and business in Italy, typified by the career of Mr Berlusconi.

Mr Blair's decision to raise the issue of Mr Murdoch's bid was, in the words of an Italian official, "a very sensible thing to do". When an Italian prime minister is consulted by his UK counterpart in this way, he is flattered. Mr Blair's spokesman said the prime minister "makes no secret of the fact he speaks up for British firms when he meets foreign leaders".

However, Mr Murdoch is no ordinary British businessman. He is a naturalised US citizen with media interests all over the world and a holding company, News Corporation, in Australia. He has substantial UK interests – more national newspapers than anyone else and a 40 per cent holding in the British Sky Broadcasting satellite television network – but famously pays little tax anywhere.

According to News Corporation, if he had been successful in his negotiations with Mr Berlusconi, Mediaset would have been inserted into BSkyB. So in that sense, the deal passed the British national interest test for the British prime minister.

But there is a separate, delicate issue for Mr Blair. The overlap between the interests of government and those of Mr Murdoch's empire are substantial. Ministers are deciding on two questions of direct moment to Mr Murdoch: trade union recognition uand the extent to which BSkyB can buy up the broadcasting rights to any sporting event.


THE Sun

Yeltsin ... new team

Blair ... moderniser

YELTSIN'S HUNTING RUSSIAN BLAIRSKI

RUSSIAN leader Boris Yeltsin yesterday sacked his entire government to foil a Kremlin coup – and bring in new Tony Blair-style modernisers.

Yeltsin – dubbed the Russian Bear – acted to stop Premier Viktor Chernomyrdin and billionaire minister Boris Berezovsky battling for his job.

Yeltsin was convinced the pair had turned their

*Yeltsin, who met Mr Blair in Moscow last October, said at the time: "Tony Blair is a most thrusting, energetic politician. I am very fond of young, energetic people."*

The Sun newspaper, which for many years lost no opportunity of heaping scorn on the Labour party and praising Conservative rivals such as Margaret Thatcher, now goes out of its way to be friendly to Tony Blair, as this story from yesterday's issue demonstrates

# Rebuff feared on 1939-45 asset claims

By Simon Buckby, Social Affairs Correspondent

The government is expected to refuse compensation to the 25,000 companies and individuals who have not been given back assets confiscated by Britain during the second world war.

Assets in the UK worth an estimated £600m ($1bn) at today's prices - about £40m at those of 1939 - were confiscated from investors from former enemy countries and Poland. Many were victims of the Nazis.

Lord Janner, chairman of the Holocaust Educational Trust, said last night: "Every indication we've received is that the government is not going to give back to Jewish and non-Jewish survivors the money it took.

"There is no honourable justification for this course of action. It is disgraceful. No other country has refused to make restitution. Britain will be shamed. There will be a national and international outcry if they go ahead with this policy."

Ministers said yesterday they would publish on Friday next week a report detailing the history of Britain's handling of property owned by nationals of enemy countries.

A full list of the 25,000 companies and individuals is also expected to be published in April. Lord Janner has called for a procedure to be established to enable victims or their heirs to make compensation claims .

Under the 1939 Trading with the Enemy Act, all assets invested in Britain by enemy nationals, including victims of the Nazis, were seized by the Custodian of Enemy Property.

Investors from Germany, Hungary, Romania and Bulgaria could get money back after the war only by providing evidence they had been victims of the Nazis.

For many that was impossible. More than a third of claims were rejected because of insufficient proof.

Many other accounts and assets were not claimed, often because of the death of the owner and ignorance by heirs that money had been invested in Britain.

It is believed the report next week will show the UK government used the unreturned assets to repay British companies owed money from before the war.

Bank accounts of nationals from other countries occupied by Germany, including France, Italy, Austria, Greece and the Benelux, were unfrozen after the war. Up to £35m at 1939 prices was unclaimed.

## NEWS DIGEST

**AFTERMATH OF BCCI CLOSURE**

### Liquidators' $800m claims against firm struck out

A London judge yesterday struck out claims totalling $800m brought against Ernst & Whinney, the accountants now part of Ernst & Young, by the liquidators of the Bank of Credit and Commerce International Luxembourg (Holdings). The ruling leaves the liquidators claiming a total of $2.6bn from the accountancy firm which audited the bank's accounts before its collapse.

Christopher Morris, one of the BCCI liquidators, said the ruling was "disappointing". However, he said the liquidators would mount an appeal against the decision as it did on a previous occasion involving another BCCI company. In February this year, the Court of Appeal overturned a similar ruling by the same judge, Mr Justice Laddie, in which he struck out claims for some $1.8bn against the firm. The Court of Appeal reinstated the claims brought by BCCI (Overseas Ltd). **John Mason, London**

**POSTAL SERVICE**

### Airmail rates to be harmonised

Airmail postage rates from the UK to other European countries are to be harmonised next month, the UK Post Office announced yesterday. The price of sending an air letter from the UK to another European Union state will rise from 26 pence (43c) to 30 pence. Postage to European destinations outside the EU will fall from 31 pence to 30 pence, introducing a standard rate across Europe for the first time. Prices for other international airmail and for domestic letters will not change.

The need for greater commercial freedom in the state-controlled Post Office became "more critical every day" as the communications market was invaded by new competitors and reshaped by new technology, said Neville Bain, the Post Office chairman. **Alan Pike, London**

**CREDIT CARDS**

### Visa holders spend 28% more

Plastic credit and debit cards are taking an increasing share of payments, with Visa cardholders lifting their UK spending last year by 28 per cent to £97.8bn ($163.32bn), equal to £11m an hour. Spending on Visa credit cards climbed 19 per cent to £38.2bn, while debit card spending rose an even faster 37.2 per cent to £52.1bn.

Hans van der Velde, president of Visa Europe, said the results defied views that the UK market was mature, cards still accounting for only 15 per cent of personal consumer expenditure. The UK is Visa's biggest European market – card numbers rose last year to almost 45m. **Christopher Brown-Humes, London**

**CONSERVATIVE PARTY**

### Eurosceptics threaten to resign

Senior members of the opposition Conservative party have warned of "bedlam" if William Hague, John Major's successor as leader, softens his party's line of ruling out British membership of the single European currency for 10 years. Amid reports last week that party managers are preparing to remove the time limit on Britain's exclusion, while abandoning plans to hold a national ballot of all Conservatives on the issue, senior Eurosceptics have indicated they would resign from the shadow cabinet if the policy stance was watered down.

Eurosceptic Conservatives have reacted strongly to reports that Mr Hague, in an attempt to unite his party before next year's European elections, is considering a policy which rules out economic and monetary union unless a series of stringent economic and political criteria have been met. While the Conservative leadership denies a change of heart, many pro-European Union party members and Conservative members of the European parliament have been urging Mr Hague to adopt a warmer approach to the single currency. **Liam Halligan, London**

**INVESTMENT IN SCOTLAND**

### $45m boost from US company

Seagate Technology, the US disc drive company, is investing a further £27m ($45m) in its microchip plant at Livingston near Edinburgh. The investment will lead to the creation of 100 jobs, bringing employment to 375 over two years. The plant designs and manufactures semiconductors used in Seagate's disc drives made in the US and Asia. **James Buxton, Edinburgh**

# Low rates worry aviation insurers

By Gautam Malkani in London

Aviation insurance profits are still dogged by a soft market with no end in sight to excess capacity and low rates, the Aviation Insurance Offices' Association said yesterday.

Keith Selby, chairman of the association, which represents the London-based insurance companies market, said current prices were unsustainable. But he did not rule out the prospect of further reductions "in a market still dominated by market share and business acquisition thinking and motivation".

Price reductions gathered momentum in the final quarter of 1997, when most major risk renewals are negotiated, falling 15 per cent on average.

The expected cost of major hull losses affecting western-built aircraft in 1997 is $600m, in line with the average for the decade. Fatalities were down from a record 1,306 in 1996 to 630.

The first half of 1997 saw an exceptionally low level of major accidents, but the second half was marred by seven crashes within 12 days. The most significant was the Boeing 747-300 of Korean Air which crashed killing 288 people. In September an Airbus A300 operated by Garuda Indonesia crashed killing 234 people.

Mr Selby said rates could eventually be raised by changes in liability. Airlines are voluntarily taking steps to waive the 1929 Warsaw Convention principle of limited liability, which will increase the cost of claims.

# Hollywood studios will be asked to pay levy

By Alice Rawsthorn in London

Chris Smith, chief minister for culture, will today unveil proposals to introduce a levy on the turnover of film companies operating in the UK to finance an industry-wide training initiative.

The levy plan, which is among the recommendations of the Film Policy Review Group set up by Mr Smith last summer as part of the government's efforts to stimulate film and other creative industries, could prove highly controversial within the film business.

Detailed proposals have yet to be finalised. However, it is understood that the government hopes to persuade the ITV companies and British-based subsidiaries of the Hollywood movie studios to pay the levy, equivalent to roughly 1 per cent of film-related turnover, as well UK film producers. ITV is the main commercial terrestrial television rival to the BBC.

The Film Policy Review Group, composed of industry executives and co-chaired by Tom Clarke, the film minister, rejected early suggestions of making contributions obligatory. Instead, they are believed to have opted for a voluntary payment system, although companies refusing to participate could be excluded from applying for National Lottery subsidies and other forms of public sector funding.

Proceeds from the levy will be used to fund a training programme intended to upgrade the skills of the UK film industry's existing workforce, and to train new recruits. It is expected to include scriptwriters, production executives and film technicians.

Mr Smith regards the Film Policy Review as the centrepiece of Labour's attempts to sustain the film industry's recent revival. Investment in UK film production has risen from £169m ($282m) in 1992 to £558m last year, according to Screen Finance, the FT newsletter.

The government is convinced that the industry can expand further. Cinema admissions soared from 54m in 1984 to 139.5m last year, and over 1,000 new cinema screens were built in the same period.

A study by Dodona, the research consultancy, predicts that the number of screens will rise from 2,356 in 1997 to 3,150 in 2002.

**HIGHER EDUCATION** FORMER UNIVERSITY OF CALIFORNIA CHANCELLOR ATTACKS GOVERNMENT'S RULING ON STUDENT FEES

# Oxford 'set to drop out of world league'

By Nicholas Timmins, Public Policy Editor

Oxford University is poised to become a second division research university which will have "forfeited its international reputation for undergraduate education", Dr Robert Stevens, master of the university's Pembroke College, warned yesterday.

The loss of much of the college fee and the bar on Oxford or its colleges charging top-up fees means Oxford "will not be playing in the world league," said Dr Stevens, a former historian of higher education, former professor of law at Yale and former chancellor of the University of California.

For the first time, students at British universities are to be charged a means-tested tuition fee of £1,000 ($1,670) from September, with living costs covered by loans and not grants. The government has barred universities from charging additional fees.

Dr Stevens' fierce criticism that Britain and the Labour government appear to have decided that "world class universities are an embarrassment" and that Oxford is "clearly not part of Cool Britannia" was made all the more stinging by being delivered in Washington to America's Association of University Administrators.

The ultimate fate of Oxford colleges, he said, would be becoming "glorified dormitories" to the university, which, "while remaining the best of England's universities, will not be playing in the world league".

There is a further danger that if top-up fees remain banned – the government has said it will cut the grants of universities that introduce such fees – and the government "continues to over-regulate universities and run them on the cheap", then "they will follow the German and French universities into a state of serious, and perhaps terminal, decline".

The decision to bar additional fees has cut off Oxford's – "and ultimately the whole of higher education's" lifeline, Dr Stevens said. The British, he said, still see higher education as a state-provided public good, in effect "the last nationalised industry", and are reluctant endowment donors.

Dr Stevens, an Oxford graduate who has spent most of his working life in the US, heads one of Oxford's poorest colleges. He said Harvard's endowment is $11bn, while Oxford's is $2bn, much of it used to subsidise undergraduate living.

Its grants from all sources, including foundations and industry, are roughly 15 per cent of Harvard's, yet Harvard charges students $30,000, heavily discounted to ensure that poorer students could attend.

"Oxford is already hanging on by its fingertips in claiming to be an international university," he said. Its future is that "it will be a second division research university and will have forfeited its international reputation for undergraduate education."

### Applications only marginally lower

A fall in applications for places at UK universities from students in south-east Asia following economic turbulence there has helped to pull total applications for undergraduate courses from all areas including the UK down by 0.2 per cent so far this year, **Nicholas Timmins writes.** There has also been a sharp drop in applications from the Republic of Ireland where tuition fees have been abolished just as Britain is introducing them.

Nevertheless, applications from UK school leavers are running ahead of last year's figures in spite of the arrival this September of means-tested tuition fees, according to latest figures from the University and Colleges Admission Service.

Tony Higgins, chief executive of UCAS, said the real test will be the numbers who actually enter university.

He said that a lot of students would be applying "to make sure they keep their options open".

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**PROFILE** JOHN BRENNAN, CHAIRMAN OF VANGUARD GROUP

# A custodian of offbeat tactics

**John Authers** meets the chairman of the fast-growing and unusual US fund management company

No fund manager is taking in money quicker than the Vanguard Group. In the past 12 months it has sucked in new funds faster than heavyweights such as Fidelity Investments and Merrill Lynch.

Ask John Brennan, Vanguard's new chairman, how it will keep the pace up, and he replies with the simple business logic that Vanguard has used to reach its present position: "Wherever, and whenever, we will do it cheaper than anyone else."

Mr Brennan, who became chairman last month after taking over as president in 1989 and chief executive last year, is espousing the simple selling proposition that has seen his group's funds under management reach $370bn. Vanguard sells only direct to customers, and pays no commission to intermediaries.

Mr Brennan's sales pitch is in line with Vanguard's corporate culture, which he describes as "Quakerish". Based in Philadelphia, a city founded on the Quaker philosophy, the group has, for example, no executive dining rooms. John Bogle, its founder and Mr Brennan's predecessor, still has an office in the building and is often seen arguing with younger staff over lunch.

Mr Brennan, an intense 43-year-old Bostonian likely to be a dominant figure in the industry for a generation, has inherited Mr Bogle's forthright style. He is an assertive chief executive who does not suffer fools gladly.

After an Ivy League academic career at Dartmouth and Harvard Business School, Mr Brennan was first recruited as an assistant to the chief executive in 1982.

**The company itself is named after a ship in Nelson's fleet. No one refers to employees: Mr Brennan talks of 'fellow crew members'**

He has been bequeathed a strong corporate culture. His predecessor's interest in naval history is evident throughout Vanguard's neat corporate campus in the leafy suburbs of Philadelphia. Each main building, and the company itself, is named after a ship in Nelson's fleet at the Battle of the Nile. Nobody ever refers to employees: Mr Brennan talks of "fellow crew members".

If the corporate culture is a little offbeat, so are the company's tactics. Vanguard, for instance, never advertises on television. It even refuses to quote past investment performance figures in advertising, saying this would be misleading. Instead, it tells investors about its low management costs.

Its most popular fund, the S&P 500, flouts orthodoxy by not attempting to outperform the index, merely to match it. Last year, as money poured in while the market boomed, the company even sent its investors a document warning of the risks of a bear market.

Many competitors see Vanguard as deliberately perverse. Mr Brennan describes critics as "emotional but not rational".

Actions speak lounder than words. For the past two years, Vanguard has led sales for the US mutual fund industry, which is booming on the back of the bull market in equities, and on the post-war "baby boom" generation saving for retirement. Last year, the long-term assets (equities and bonds) it controls rose 41 per cent, while the industry as a whole grew 28 per cent.

The big challenge now, says Mr Brennan, is to prove that Vanguard's strategy goes beyond the "low-cost value-for-money" market niche. "We think we have the high-value niche now, and we aren't going to change our strategy to get other niches," he says. "We think the intelligent investor will focus more and more on cost, convenience and service."

Vanguard is pushing for expansion, mostly in the US where it still has less than 10 per cent of the market. It has also experimented with building an operation in Australia, primarily offering corporate pension funds. It is actively exploring similar options in Europe.

Mr Brennan accepts that his company must do more for private clients. "We need to expand our brokerage services. You can't buy and sell our funds on the Web yet. And that could be a vital asset for us in the future."

Most tricky, given Vanguard's transaction-only strategy, is Mr Brennan's desire to expand the advice the company offers. This will cost money. "The key thing is to provide services that are comparable or better at prices that are half or less what others are charging."

He suggests that Vanguard's administrative costs, the cheapest in the industry, may be low enough to allow this. This raises the question of its capital structure. Uniquely among US fund managers, the central company is owned by its mutual funds. Any profit should thus be returned to shareholders, in a style reminiscent of a traditional mutual life assurance company.


Rivals question whether Vanguard can grow without accessing capital, and whether it will be able to give good employees sufficient incentives to stay on board. Mr Brennan winces at the suggestion that the company might one day be bought by a bank.

"We have all the capital we need," he says. "This isn't a business where you are building a chip plant, maybe for a billion dollars. Our capital is our people.

"Frankly, we are financially advantaged because we can make judgments on a longer-term outlook. We don't have to run our business around the myopic issues of the quarterly earnings report. Our structure means everything we do must be in the interests of shareholders."

**TECHNOLOGY** ARENAS

# Turfing out an old design

**Simon Inglis** looks at one of the world's most technologically advanced stadiums

Most people in Arnhem thought Karel Aalbers, president of the local soccer club, Vitesse, was crazy when 11 years ago he launched plans for one of the world's most technologically advanced stadiums. He had only recently rescued Vitesse from near bankruptcy at the foot of the Dutch Second Division. Attendances were only 3,000.

Anxious to find additional sources of revenue, Mr Aalbers decided that, for a new stadium to pay, it would have to be more than just a football ground.

He thus proposed a retractable roof and, initially, a "demountable" floor to cover the pitch, so that the venue could operate as both a conventional stadium and an indoor arena. This, argued Mr Aalbers, was the logical way to achieve the ultimate goal of most facility operators in the sport and leisure sector: a multi-functional building for use all year round.

But if Mr Aalbers's concept was more or less dismissed in 1987, the long-awaited $72m Gelredome – to be inaugurated in front of a crowd of 26,800 tonight – is more advanced than even he expected.

The Gelredome has a retractable roof. But its truly remarkable feature is the pitch, which slides in and out of the building on a single concrete slab weighing almost 11,500 tonnes. Only when Vitesse are playing will the pitch be moved inside, through a gap under one stand. The rest of the year it will live outside, to be maintained just like any outdoor pitch.

For the future of stadium design, the consequences of this breakthrough could be enormous. Firstly, the pitch at Europe's only other stadium with a retractable roof, in nearby Amsterdam, has had to be replaced three times since 1996, owing, it is thought, to a lack of natural light and ventilation.

By allowing the pitch to live outside, Vitesse fans gain both a good surface for their team and the option of watching soccer with the roof open or closed.

But more important are the potential economic benefits. At conventional stadiums, events such as concerts are mainly limited to the summer, owing not only to the weather but to the long set-up times required and the need to protect the turf.

In North America and Japan, where artificial pitches are common, this is less of a problem. But for soccer, the use of synthetic turf is forbidden. As a result, some stadiums, such as Wembley in London, have developed a pitch cover for concerts.

Arnhem's system, priced at about $5.8m,costs roughly five times more than a conventional pitch and cover combined. But Mr Aalbers says it takes only 3¼ hours to move into position, needs only three staff, and uses less than $2,500 in energy costs per movement.

The system's appeal is also its simplicity. The first attempt to take turf in and out of a stadium was at the Pontiac Silverdome, near Detroit, for the 1994 World Cup, when the pitch was laid on 2,000 interlocking trays.

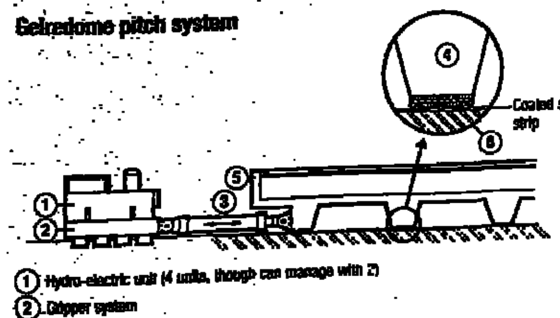
Various US and European companies set about researching more efficient methods of moving turf, either on pallets or on several large slabs. Then one day, while toying with a matchbox, Mr Aalbers wondered if a pitch could be moved in one unit. Designer Herman Bomer of Hollandsche Beton Maatschappij, the Dutch building company, studied various ways to do this, including floating the pitch on water or moving it on wheels, rails or even small hover units. However, a group of residents had to be assured that any pitch movement would not be noisy.

Eventually the DNO, a research institution in Delft, suggested sliding the pitch on Teflon pads, a near silent method of moving components already used in the Bremen shipyards.

Having proved that the system works, the Gelredome's next challenge concerns the number of events it can attract to justify the outlay. So far four sell-out concerts by the Spice Girls and the Back Street Boys, followed by the opera *Aida*, are scheduled in the next two months. But even if long-term earnings do not meet expectations, other developers are likely to be seduced by the idea.

Mr Aalbers says that by the time Arnhem is one of the host cities for the European Championships in 2000, someone is bound to have improved on his prototype. But he can still claim to have been the first, which makes him not so crazy after all.

**Gelredome pitch system**




1. Hydro-electric unit (4 units, though can manage with 2)
2. Gripper system
3. Hydraulic cylinder
4. Concrete support (394)
5. Concrete field basin (approximately 71m x 115m)
6. Teflon sole (788, ie two per concrete support)

**INFORMATION TECHNOLOGY** HANDHELD COMPUTERS

# Information at your fingertips

**Paul Taylor** checks out the latest batch of cheaper and easier to use computers

When Apple Computer finally pulled the plug on its Newton handheld organiser last month, it marked both the end of an era and the dawn of a new one.

The Newton, launched in 1992 amid a fanfare of publicity as the first "personal digital assistant" was supposed to revolutionise the lives of its users. But while Newton, like other Apple machines, won the support of a small but fiercely loyal band of users, it was never a commercial success.

The $1,150 device – re-christened the MessagePad 2100 in its latest guise – was one of the last survivors of the first generation of handheld computers launched in the early 1990s on a wave of optimism and marketing hype.

Ironically, Newton's demise comes as a new batch of cheaper, easier to use and more powerful handheld computers has arrived on the market – many of which were on display at the CeBIT information technology trade show in Hanover last week.

These range from full-function computers such as Psion's Series 5 and machines built around Microsoft's Windows CE operating system designed to replace notebook PCs, to 3Com's pen-driven PalmPilot – which sold 1m units last year – and Franklin's credit-card sized Rolodex Rex.

Other machines such as Nokia's pioneering Communicator 9000 and Sharp's MC-G1 – launched at the CeBIT show – blur the distinction between handheld PCs and portable telephones by combining both functions in one unit.

The potential impact of this flurry of activity in the handheld PC market is evident in figures from International Data Corporation, the market research group. From an estimated 3m handheld units shipped worldwide in 1997, IDC forecasts a jump to 13m a year in 2001.

"The growth of the handheld computing market is being driven by the transformation of the corporate environment into an extended, virtual enterprise – supported by a highly mobile, geographically dispersed workforce requiring fast, easy remote access to networked resources and electronic communications," says 3Com.

Several other factors help explain the renewed interest in the handheld market. These include:

- End-user demand. Both consumers and corporate buyers have become much more sophisticated in terms of their technology buying habits and more ready to accept the compromises required to squeeze computing power into the size of a cigarette packet.
- Technology. Advances in microprocessor design and silicon integration have increased the power and functionality of the second generation of handheld PCs, while reducing their cost.

The latest handheld PCs are typically powered by Risc (reduced instruction set computing) chips from Cambridge-based Advanced Research Machines, Mips, the Silicon Graphics subsidiary, or Japanese chipmakers such as Hitachi and NEC.

These microprocessors combine high performance with the low power consumption vital for handheld devices. Meanwhile, the falling price of liquid crystal displays and memory in particular have enabled manufacturers to build much lower cost devices.

- Market segmentation. Early handheld computer vendors attempted to persuade users that their machines could "do everything". The trend today however, is to build machines that answer specific user requirements and address much smaller market segments.

This has resulted in the rapid fragmentation of the market and proliferation of different types of devices. The devices available fit into several distinct groups.

The first group of handheld PCs comprises machines that seek to replicate most of the functions of a desktop PC in a portable package small enough to fit in a (large) pocket.

This category includes the Psion and Windows CE machines. In both cases, the machines include software that enables the user to transfer files to and from a desktop using a serial cable. While the Psion machine wins plaudits for its ease of use, keyboard and battery life, the CE machines have undoubtedly helped "legitimise" the handheld computing market.

Microsoft has also licenced the CE operating system for use in so-called Palm PCs. These machines, which have just begun to appear on the market from companies like Casio, are around the size of a pack of playing cards and have no keyboard. Instead, like the Apple Newton, the device is controlled using a plastic stylus and touch-sensitive screen.

They will compete directly with the highly successful PalmPilot, the latest version of which was launched at CeBIT. 3Com's PalmPilot does not pretend to have the same computing abilities as the Psion or CE machines. Instead its emphasis is on its light weight, ease of use and close integration with desktop data.

"The Palm III (the latest version of the PalmPilot) is positioned as an extention of your PC, not as a replacement," says Marc Bercom, vice-president of 3Com's Palm Computing unit.

Delivering wireless connectivity to handheld devices is still an area of division within the nascent handheld market. While companies like Psion and 3Com have chosen to address this by providing either add-on devices, or software and cables to link to separate mobile telephones, other companies have sought to integrate mobile communications into their handheld devices. Understandably, the leaders in this field have come from the telecommunications sector rather than the PC industry.

The final segment of the handheld market consists of devices such as Franklin's Rex3 which was also launched in Europe at CeBIT but which has been a huge and surprising success in the US since it was introduced in November.

The Rex is designed to fit into a standard PC Card slot on a portable PC or a docking station connected to a desktop and has no separate input facility – it relies entirely on its host computer to download information.

While its seems likely that the handheld computing market will see consolidation, the wide range of devices available appears to indicate that the future of portable computing lies in products designed to serve particular niches. It may yet turn out that Apple's Newton was simply ahead of its time.

**MANAGEMENT** STRATEGY

# Myth of critical mass

Size may not always reflect share of output, say **John Kay** and **Leslie Hannah**

Companies which think that being large is essential for success in the 21st century may have their beliefs shaken if they examine the fate of companies that thought the same thing a 100 years ago, the first article in this series showed yesterday.

USX, once the largest company in the world, functions today in the shadow of firms 20 times its size. J&P Coats, once Britain's leading manufacturing company, is now one element of a mid-cap company. Pullman – the railroad giant – is only a memory. Anaconda, once the world's greatest minerals producer, was long ago absorbed by a larger rival.

Despite beliefs about the inevitability of size and concentration, and vigorous efforts to make these beliefs come true, the share of large companies in total output is not going up. This is the focus of our second article.

The figures in the table below provide the best and most recent evidence available – which itself says a lot about the relative importance of opinion and information in business strategy. The picture, at least as far as manufacturing is concerned, is that the share of large companies in total output increased until about the 1970s, particularly in Britain and the US, then stopped.

These figures relate to manufacturing as a whole: but the results are generally reproduced at the level of individual industries. One study of about 50 industrial sectors in the 1980s, for example, showed that, on average, concentration had declined and the largest company had lost about 5 per cent of its market share.

While manufacturing data are better and easier to interpret than any we have for other sectors, they seem representative of a wider picture. In banking, the 10 largest banks in the world have accounted for 20-25 per cent of total deposits and total lending for as long as data are available.

The 10 largest banks are have varied a lot, however. They used mostly to be British and American, then French and Japanese banks entered the picture, then the emphasis switched to East Asia, and, if you did the calculation today, German and Swiss institutions would feature strongly.

Anyone who thinks size is the key to success in banking should recall that, within living memory, Midland Bank was the largest in the world. The recurrent pattern is that banks grow quickly by diversification, acquisition or foolishing lending and then shrink again when the consequences become apparent.

There are industries where concentration has increased – like accounting. These are offset by others – like automobiles – where it has fallen. You may be surprised by automobiles, the industry most people use to illustrate the importance of size and scale. But the high point of concentration in the car industry was in the 1950s, when GM, Ford and Chrysler produced almost all the cars in America and more than half the cars in the world. Since then, there has been a steady stream of entrants to the automobile industry.

**A peak in the '70s**

Percentage share of the largest 100 manufacturing companies in manufacturing net output

| | 1918 | 1970 | 1990 |
|---|---|---|---|
| US | 22 | 33 | 33 |
| Japan | 23 | 22 | 21 |
| Germany | 17 | 30 | 23 |
| UK | 17 | 40 | 36 |

City University Business School working paper

There are still economies of scale in the auto industry. But as incomes have risen and as car prices have fallen relative to other goods, cheapness has become less important. Consumers have been willing to pay for differentiation. Modern manufacturing methods have cut the cost of providing it. Henry Ford once dominated the US car industry with his standardised model T. Then Ford lost market leadership to General Motors. Globalisation, far from increasing the dominance of GM, gave market opportunities for smaller companies and entrants.

When cars were invented, there were hundreds of tiny manufacturers. Most fell by the wayside. Production focused on a limited number of companies and types. As the market matured, differentiation again became more important, which is why so many companies survive.

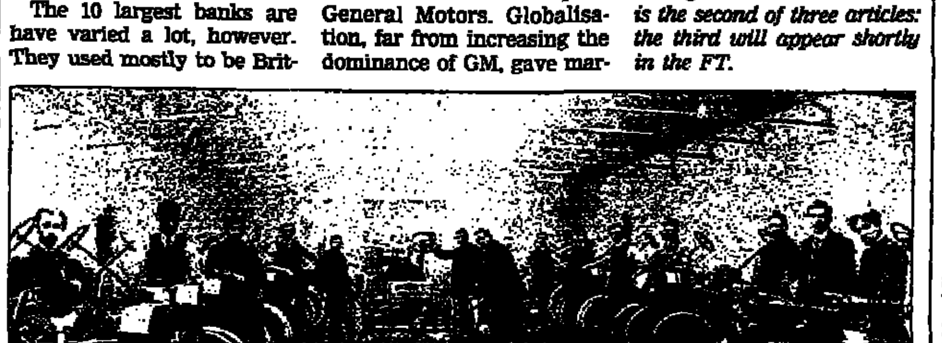
That is a common pattern in business history. It seemed a few Italian companies reaping large economies of scale would dominate the European domestic appliance market. But ultimately they failed. Over time cheapness mattered less, consumers were choosier about the models they wanted, and flexible manufacturing made it cheaper to give them what they wanted. We see the same thing happening in computers and many other businesses today.

But there is no common trend – to size, globalisation, or anything else in industrial evolution. Across the economy as a whole, there is no general tendency for concentration to rise or to fall.

Within these overall patterns, however, the rankings of the leading companies change frequently under the influence of competition. Today's leading tobacco company (Philip Morris) hardly existed in 1912, while the leading tobacco company of 1912 (American Brands) has now left the business: the title of the world's leading bank has changed hands at least six times in the same period.

If there is a general story it is that there is no general story, and that woolly assertions about critical mass, and the inevitability of global concentration contribute less than nothing to our understanding of how the business environment evolves. That depends an appreciation of the specifics of particular industries.

*John Kay is the Peter Moores Director of the Said Business School at Oxford University and a director of London Economics. Leslie Hannah is dean of London's City University Business School. This is the second of three articles: the third will appear shortly in the FT.*



Car assembly in its infancy: the first British Ford Model Ts at Trafford Park, Manchester in 1911

LOUISE KEHOE
**EAGLE EYE**

# The silent valley

High-tech industry must bridge the cultural gulf that divides it from US legislators

Some people inflate their resumés by adding degrees or exaggerating their achievements. Keith Raffel does the opposite. He leaves out the fact that he earned a law degree and worked in Washington DC as counsel to the Senate Intelligence Committee before starting a second career in technology.

As chief executive of Upshot, a Silicon Valley software start-up that has developed a web-based sales support system, he says some of his qualifications are not much admired in the world of high technology. Mr Raffel's confession struck me as further proof – as if any were needed in the wake of Bill Gates' testimony before the Senate Judiciary Committee – of the yawning cultural gap between the US capital and Silicon Valley.

Almost daily, it seems, American legislators are speaking out on issues related to the high-tech industry – whether it is Microsoft's Windows monopoly, export restrictions on encryption, immigrant visas for engineers or internet censorship. The problem is that few politicians know much about the high-tech sector. And worse, few high-tech entrepreneurs take the time to figure out how Washington works or to offer their opinions to lawmakers.

Indeed, some in Silicon Valley say politics is a distraction to be avoided. Take John Sculley, the former Apple chairman. He was honoured with a seat next to Hillary Clinton during President Bill Clinton's first State of the Union address. A few months later he was ousted from Apple. Yet Washington and Silicon Valley have more in common than is generally recognised, says Mr Raffel. Both employ bright people who achieve positions of responsibility at a young age. In the Valley, entrepreneurs in their 20s are running businesses. In Washington, many of the "staffers" on Capitol Hill are also very young.

A more worrying similarity is the myopia of both groups. Washington is renowned for its "inside the Beltway" attitudes, but the Valley is no better. Washington may be obsessed with Monica Lewinsky, but here the gossip of technology alliances and rivalries is equally intense and remote from real life.

Washington may never change, but the high-tech industry must if ill-informed decisions are not to stifle its progress. As users or investors in technology, we should be pushing the sector toward greater political awareness. Ask the awkward questions. Where do you stand, Mr Gates, on the future of internet governance? Why has Microsoft been silent on this issue?

* * *

Talking of politics, the California legislature is considering a bill to eliminate or at least reduce spam – those annoying solicitations that masquerade as e-mails from friends. Spam accounts for an estimated 10 per cent of e-mail worldwide. It is the scourge of computer users and a mounting problem for internet service providers whose systems can be overwhelmed by mass mailings.

Yet most efforts to outlaw junk e-mail have stepped into the dangerous waters of restraining free speech. The bill introduced in Sacramento this month appears to offer a practical solution. The bill (technically an amendment to an earlier bill, AB 1629), co-authored by Jim Cunneen, the state assemblyman for much of Silicon Valley, focuses on trespass and forgery as the legal barriers to spam.

It prohibits e-mail users from violating the policies established by an ISP. For example, if an ISP banned spam, it would be considered trespass to use that provider's facilities to send advertisements via e-mail. This gives ISPs ammunition for civil lawsuits.

The bill also makes it a crime to use somebody else's domain name without their permission if this causes disruption of their internet access. This strikes at the heart of the spammers' trade. If you receive an e-mail promoting a dubious get-rich-quick scheme, for example, it will instruct you to contact the sender by phone or to go to a website for more information. Instead, you might decide to reply via e-mail telling the sender you are not interested in such messages.

You may even have an antispam program that automatically fires off such a reply. Quite innocently, you will be contributing to the biggest problem created by spam: large volumes of reply messages that bounce around the net in search of false addresses. Spammers don't want to be bothered with negative responses, so the reply address on spam is typically falsified. When thousands of these messages move through an ISP's system, the results can be catastrophic. Recently, two ISPs in California were temporarily shut down by spam and its responses.

The California bill (*www.leginfo.ca.gov*) would, in effect, give spammers a dose of their own medicine by requiring them to provide genuine reply addresses. It would also enable authorities to identify more easily people using e-mail to promote fraudulent schemes. As Mr Cunneen points out, this bill puts ISPs back in control of their systems by enabling them to decide whether to allow spam. Internet users would be able to choose between a "no spam" ISP, or one that allows spam and perhaps charges less as it is receiving fees from spammers. Lawmakers elsewhere would do well to look closely at the California bill.

* * *

In the meantime, Eric Allman, author of sendmail, a program used by many ISPs to route e-mail, has added antispam tools to the latest version, which automatically verifies return addresses before relaying messages.

Sendmail has been used on the internet for nearly 20 years but is largely unknown outside the technical community because it is distributed without charge. In another sign of the changing culture of the internet, Mr Allman announced this month the formation of a company that will offer commercial versions of sendmail together with support services. The venture has already attracted backing from two of the founders of Sun Microsystems.

* * *

Looking for your own antispam tools? Try the zany filedudes website (*www.filedudes.com*), which also provides links to huge numbers of free software downloads ranging from movie viewers to "submission bots". The latter appear to be programs that send queries to automated search systems. At least, we hope they are.

*Share your views in the Eagle Eye discussion group on the FT website (www.FT.com) or contact Louise Kehoe by e-mail on louise@FT.com*

SALEROOM ASIAN WEEK IN NEW YORK

# Sting in the tiger's tail

**Antony Thorncroft** explains why some buyers stayed at home

This week New York goes Asian. With two international fairs devoted to Asian art, major exhibitions at the leading oriental dealers and a succession of auctions at Sotheby's and Christie's, every serious collector of Asian art will be in town.

But compared to recent years, the atmosphere is uncertain. The collapse of the Asian economies last autumn has cast a cloud over certain sectors of what had been one of the most buoyant and expanding sectors of the antiques trade.

**The collapse of the Asian economies has cast a cloud over what had been one of the most buoyant and expanding sectors of the antiques trade**

Although New York is the main market place for the traditionally strong American and European interest in Asian art, the appearance of Asian collectors in recent years who were prepared to treasure hunt in the US added froth to the week. Some, at least, of the Asian buyers will sit this one out.

The change is shown most graphically in Korean works of art. Eighteen months ago, Christie's sold a rare 17th-century iron-decorated Korean "dragon" jar for $8.4m, a record for any Asian work of art. This week in the auction rooms you will be hard pressed to find any Korean antiques for sale. The market, built on a few new Korean collectors, has collapsed.

The same goes for the more esoteric Japanese works of art, which are mainly bought by the Japanese, and for certain Chinese antiques, such as early jade, run-of-the-mill Tang horses, and unexceptional Ming and Qing porcelain. Buying such works of art is not currently uppermost in the minds of the rich Chinese of Hong Kong, Singapore, Taiwan and Jakarta.

Their caution is understandable when, on top of their shattered share prices and currencies, so much of early jade is faked; Tang horses and other tomb goods are being unearthed and smuggled out of China in vast quantities; and the best of Imperial Ming porcelain is already safely in museums.

It is different in mainland China. There the new wealthy will unexpectedly bid wild prices for oriental artifacts at the fledgling Beijing auctions. As yet few from China venture to New York, but the imminent arrival of a new breed of Chinese collector, investing in the unrivalled art and antiques of their homeland, has sent a frisson of anticipation over ignored collecting areas, such as old and contemporary Chinese paintings, Chinese furniture, modern jade jewellery, and coins and stamps. Many in the antiques world are convinced that the future is Chinese.

Fortunately for the auction houses, while they wait for the financial dust to settle in Asia, they can rely on their American and European clients. In recent years many of these old Sinophiles have been forced out of the market by strong Asian bidding. This week they can pick over an eclectic range of Asian antiques, many with much reduced estimates.

While the Ming and Qing ceramics that dominated oriental auctions of the past are less prominent, rarified art forms have been dragged into the limelight, such as early paintings and calligraphy. Sotheby's has one of only two known paintings by Qiu Chuji, who fought alongside Genghis Khan, estimated at up to $220,000, while Christie's has a handscroll containing the wood block print commissioned by the Tang Emperor, Zhaozong, in 897 to commemorate the execution of a rebellious general. It could fetch $400,000.

Exceptional works have kept their value: Christie's is asking $250,000 for this Tang Dynasty pottery striding camel

Good archaic bronzes, which have been in western collections for up to a century, are still in demand. A vessel in the form of a bird at Christie's could make $500,000, while Sotheby's has an unusually large ritual bronze vessel for around $300,000. An average Tang horse, recently dug up, might fetch $30,000, or even less today, as against $300,000 10 years ago, but exceptional figures have held their value, and Christie's has a striding camel for around $250,000, and Sotheby's a large horse with a unique and elaborate saddle for up to $350,000.

The sector which has attracted greatest interest in recent years is Chinese furniture. In 1996 Christie's sold a collection in New York for $11.2m, over twice the pre-sale estimate, with a rare marble screen making $1.1m, a record for the sector. Classical Chinese furniture is rare, with much destroyed during the Cultural Revolution, and there are often doubts about the authenticity of surviving examples, but the genuine objects in the saleroom this week should do well.

If Chinese and Korean buying is subdued there is renewed interest in Indian and southeast Asian art. Sotheby's expects up to $7.5m from its auction tomorrow, with a mottled red standstone head of Buddha, from the 5th century, estimated at up to $300,000, and a five-foot high schist figure of a Bodhisattva of the 4th century, in Greco-Roman costume, expected to make up to $350,000. Ironically these will mainly go to American and European collectors – the growing number of rich Indian buyers favour contemporary Indian paintings and jewellery.

By carefully selecting the objects on offer, persuading sellers to accept lower reserves, and gearing the auctions to the more esoteric taste of western collectors rather than the flamboyant likings of the Chinese, Sotheby's and Christie's hope to shrug off the economic uncertainties in Asia. They believe the underlying realities remain in place – that this part of the world has been producing desirable works of art longer than any other, and that it is likely to generate much of the new global wealth.

But New York is advised to make the most of the week. London's leading dealer in Asian art, Giuseppe Eskenazi, is reluctant to see market leadership disappear across the Atlantic. In the short term he has accepted the inevitable and is this week holding an exhibition, of animals and animal designs in Chinese art, at 28 East 78th Street, but he hopes to remain London based.

In November he is spearheading a similar week in London, where he believes there is more expertise and certainly more top dealers. With events planned at the Victoria & Albert Museum, the British Museum, Asia House and in the dealers galleries to coincide with the auctions at Sotheby's and Christie's, the hope is that the trade will descend on London with the same enthusiasm that they take to New York.

# After the razzmatazz, the silence

**Nigel Andrews** on deification overload at the Oscar ceremony

Each year it is as predictable as Christmas and just about as expensive. Millions of dollars are spent so that billions of people can watch, and the razzmatazz shoots off the Richter scale some time around 10pm Hollywood time, 6am in Britain.

This year it was a little different, at least at the close. No previous Oscar ceremony has climaxed with silence, as this 1998 show did when James *Titanic* Cameron requested a few seconds' hush in memory of the 1500 people who went down in the Atlantic in 1912. For a dreadful moment one had feared he might name them all. His Oscar-waving producer had already litanised most of *Titanic*'s crew, thereby flagrantly overrunning the 30-second speech allowance.

But then *Titanic* has overrun everything. Costlier and more popular than any previous feature film – a combination irresistible to Hollywood – it now equalled *Ben-Hur*'s record 11-Oscar haul. Each time Cameron rose to collect a new bronze doorstop, most of the Dorothy Chandler Pavilion rose too: not least Arnold Schwarzenegger, sitting a row in front. His extensive on-camera embracing of Cameron showed that the *Terminator* star was still available for roles from his old director, who had now turned into the hottest property in Tinseltown.

As expected, the main acting awards went to the eponymous stars of *As Good As It Gets*, who were exactly that. To their credit, Jack Nicholson and Helen Hunt also made speeches that neither need feel embarrassed by. The Academy, on the other hand, might feel a twinge embarrassed by the Supporting Actor nods. Both Kim Basinger and Robin Williams, at least in the films they were named for, *L.A. Confidential* and *Good Will Hunting*, qualified for "old troupers we love" rather than "virtuoso performance" recognition.

But Hollywood *does* love old troupers. How and why should we stop it? The main production coup of the evening silenced every cynic, in stupefaction if not in admiration. The vast bleachered line-up of past Oscar-winning actors was that feared Los Angeles phenomenon, a pan-by shooting. So many faces were there for the reverently gliding-past camera, from Robert De Niro to Shirley Temple, from Vanessa Redgrave to Rod Steiger, that it seemed like deification on overload.

There were fresher, less stage-managed moments. Matt Damon and Ben Affleck won the Best Original Screenplay award for *Good Will Hunting*, a spec script they brainstormed together while students at Harvard. Way to go. And host Billy Crystal, the very best emcee in Oscar history, made every iconoclastic moment count, including his all-but-final introduction of Best Director presenter Warren Beatty. "He comes from eight generations of show business, seven of them his sister Shirley."

Of course you have to know that Beatty's sister is Shirley MacLaine. But unless you went down with the Titanic, or are too young to have seen it yet, how could you fail to know that?

# Old man's nostalgic tour-de-force

THEATRE

**ALASTAIR MACAULAY**

**Brief Lives**
**Duchess Theatre, London WC2**

Thirty years ago and more, the line "When I was a boy, before the Civil Wars" was quite a catchphrase around the West End. Why? Because it was the most recurrent line in *Brief Lives*, the one-man show adapted by Patrick Garland from the writings of John Aubrey and performed by Roy Dotrice as a one-man *tour de force*.

If you were a boy then, as I was, this was the kind of show from which grown-ups came back and told you about with glee; and then, when it was televised, you watched it, transfixed. Aubrey/Dotrice showed us the meandering thought-patterns of old age, and the kind of 17th-century personal habits we find hilarious today (pissing in the room, then emptying the urine out the window), and a passionate nostalgia for the era before he was born – a nostalgia that became, by turns, sweet, pathetic, comic, stirring. And he branded several phrases onto the collective memory. So the return of this show to the West End – its script revised by Garland, who still directs – is fascinating.

The aged John Aubrey is played in 1998 by Michael Williams. He is an actor who can beautifully reveal a brimming heart (whether brimful of joy or outrage), and who can hold an audience with a Romantic, Lisztian indeed, display of expressive bravura vocal technique. Listening to him I found myself occasionally analysing his delivery in terms of *marcato*, *martellato*, *cantilena*, and more: a rare pleasure in London theatre today, especially when the voice is of handsome range and affecting colour.

The character Williams presents is a rambling, anecdotal, and nostalgic old scholar. Williams can be very simple; he does nothing better than the tender quiet with which he utters, "In my grandfather's day, the manuscripts flew around like butterflies." And yet his performance is generalised. He gives us aged charm and cuteness in abundance, so much so in Act Two he handles the audience as if he were in Christmas pantomime. As he tells Aubrey's

**If memory serves, 'Brief Lives' once cut deeper than charm**

tales, he piles on the old man's reminiscent laughter – but he lacks the wit that makes us laugh with him.

*Why* is old Aubrey laughing? The remembered word "crinkum-crankum", for example, was immensely funny as Dotrice delivered it. Here we see only that Williams finds it funny, or rather that he enjoys acting the old man's amusement for us. The serious detail within the character – Aubrey's scholarship, the intimacy with which he confides, the serious efforts he makes to marshal his thoughts – elude Williams because he so relishes the adorable exterior.

The performance has altogether too many actorly effects. He applies too many layers of the old man's exclamatory noises, and there is one heavy double-take too many. He is also more audience-conscious than the play can make sense of. It is also curious to note how he lacks comic timing: where a witty actor would leave just a judicious pause before a funny word, Williams hangs his pause out on the washing-line to dry, and so, regrettably, lets us know that he means to manipulate us. How odd: for Williams is a fine actor, with surely an altogether wider range than Dotrice had. And yet here *he* keeps showing us how serious characterisation can turn into mere theatre, how depth can become surface.

The show itself remains a charming, very Tory, idea: nostalgia for a golden age of chivalry yoked to wry tenderness about the feeblenesss of old age, surrounded by amusing scatology and entertaining period detail. The scatology was a great deal more exciting in the 1960s, of course, but even then it never went further than a middle-class audience would safely enjoy.

I see now how much Garland has modelled his portrayal of old age upon some of Shakespeare's. Sonnet 73 ("In me thou seest the twilight of such day...") and Justices Shallow and Silence from *Henry IV* are in the adjoining rooms. Perhaps this is clearer now because of Williams's rich Shakespearian experience; Garland has tailored the show to fit him. Still, if memory serves, *Brief Lives* once cut deeper than charm. The irony between Aubrey's tender invocations of glories gone by and the all-too-real facts of his declining years counted for more. And the charm wears thin.

Michael Williams as John Aubrey: he piles on the laughter but misses the irony Alastair Muir

INTERNATIONAL

# Arts Guide

## BALTIMORE

**OPERA**
**Baltimore Opera Company, Lyric Opera House**
*Tel: 1-410-625 1600*
*www.baltimoreopera.com*
Carmen: by Bizet. Conducted by Alfredo Silipigni in a production directed by David Roth. The title role is sung by Irina Mishura; Mar 25, 27, 29

## BOLOGNA

**OPERA**
**Teatro Comunale**
*Tel: 39-51-529 999*
*www.nettuno.it/bo/teatrocomunale*
● Don Carlo: by Verdi. Co-production with the Grand Théâtre de Genève, conducted by Eliahu Inbal in a staging by Andrei Servan; Mar 26, 29
● Il Campiello: by Wolf-Ferrari. New production conducted by Bruno Bartoletti in a staging by Nanni Garella, with designs by Antonio Florentino; Mar 25, 27, 28

## FORT WORTH

**EXHIBITIONS**
**Kimbell Art Museum**
*Tel: 1-817-3328451*
*www.kimbellart.org*
Renoir's Portraits: Impressions of an Age. Previously seen in Ottawa and Chicago, this exhibition of more than 60 paintings spans the artist's career and includes portraits of Claude Monet and Madame Renoir; to Apr 26

## HELSINKI

**OPERA**
**Finnish National Opera**
*Tel: 358-9-4030 2211*
The Magic Flute: by Mozart. New production by Swedish director Etienne Glaser, designed by Peter Tillberg. Conducted by Mikko Franck; Mar 25

## KORIYAMA

**EXHIBITION**
**Koriyama City Museum of Art**
*Tel: 81-249-56 2200*
Aubrey Beardsley: more than 200 drawings, prints, posters and books created during the brief period of the artist's fame. A member of the fin-de-siècle avant-garde, Beardsley left England for Dieppe following Wilde's disastrous libel action and subsequent imprisonment in 1895. The exhibition marks the centenary of Beardsley's tragically early death, aged 25, and arrives at the V&A in October, after touring in Japan; to May 5

## LISBON

**CONCERTS**
**100 Days Festival, Expo '98**
Portuguese Symphony Orchestra: programme of 20th century works; Main Auditorium, Centro Cultural de Belém; Mar 25

## LONDON

**CONCERTS**
**Barbican Hall**
*Tel: 44-171-638 8891*
London Symphony Orchestra: Riccardo Chailly conducts concert performances of Mahler's Totenfeier and the closing part of Act 3 of Wagner's Götterdämmerung. With sopranos Jane Eaglen and Janice Watson; Mar 25

**Queen Elizabeth Hall**
*Tel: 44-171-960 4242*
The Tchaikovksy Experience: Roger Norrington conducts the Orchestra of the Age of Enlightenment in a weekend of concerts, using period instruments, intended to sound as historically accurate as possible. Saturday's programme includes extracts from Sleeping Beauty and Piano Concerto No. 1, with pianist Cyril Huvé. Sunday's programme includes Tatyana's Letter from Eugene Onegin with soprano Joan Rodgers, and the Pathétique Symphony. The weekend's activities include afternoon recitals by Huvé and Rodgers, as well as talks and open rehearsals

**Royal Festival Hall**
*Tel: 44-171-960 4242*
● BBC Concert Orchestra: conducted by Barry Wordsworth in works by Prokofiev, Sibelius, Grieg and Mussorgsky. With piano soloist Cristina Ortiz; Mar 25
● Philharmonia Orchestra: conducted by John Eliot Gardiner in works by Elgar, Sibelius and Brahms. With violin soloist Gidon Kremer; Mar 26

**EXHIBITION**
**Royal Academy of Arts**
*Tel: 44-171-300 8000*
Art Treasures of England: The Regional Collections. Display of some 500 paintings, drawings and sculptures which will tell the history of the public collections outside London, from the 17th century to the present; to Apr 13

**OPERA**
**English National Opera, London Coliseum**
*Tel: 44-171-632 8300*
● La Bohème: by Puccini. Steven Pimlott's production is revived by Barry Atkinson and Frances Moore, and conducted by Emmanuel Joel (Alex Ingram from Mar 27); Mar 26, 27
● The Tales of Hoffman: by Offenbach. New production by Graham Vick, designed by Tobias Hoheisel and conducted by Paul Daniel/William Lacey. Cast includes John Tomlinson; Mar 25, 28

**Shaftesbury Theatre**
*Tel: 44-171-379 5399*
The Royal Opera: Cosi fan tutte, by Mozart. Revival of Jonathan Miller's production, conducted by Colin Davis (David Syrus on 25, 27 Mar); Mar 25, 26, 27, 28

## NEW YORK

**EXHIBITIONS**
**Guggenheim Museum**
*Tel: 1-212-423 3500*
*www.guggenheim.org*
China – 5,000 Years: major exhibition organised in collaboration with the Chinese government. Comprising more than 500 works of art, ranging from the Neolithic period to the modern, with traditional works displayed at the uptown museum (to Jun 3), and the modern section at the Guggenheim Museum SoHo (to May 25). Uptown highlights include Neolithic jades and Shang and Zhou bronzes. The aim of the display at the SoHo museum is to explore the meaning of modernity in China. Both parts will transfer to Guggenheim, Bilbao in July

**OPERA**
**Metropolitan Opera, Lincoln Center**
*Tel: 1-212-362 6000*
*www.metopera.org*
● Lohengrin: by Wagner. New production by Robert Wilson, with costumes by Frida Parmeggiani; Mar 25
● L' Elisir d' Amore: the final performance of the season is conducted by Maurizio Benini, with a cast including Ruth Ann Swenson; Mar 26
● Stiffelio: conducted by James Levine, with Maria Guleghina as Lina and Plácido Domingo as Stiffelio. The production is by Giancarlo del Monaco; Mar 27

**New York City Opera, New York State Theater**
*Tel: 1-212-870 5570*
*www.nycopera.com*
La Bohème: by Puccini. Conducted by George Manahan and staged by Graziella Sciutti; Mar 28, 29

**THEATRE**
**Joseph Papp Public Theatre**
*Tel: 1-212-260 2400*
Macbeth: by Shakespeare. George C. Wolfe directs Alec Baldwin and Angela Bassett as Macbeth and Lady Macbeth

## PARIS

**CONCERT**
**Salle Pleyel**
*Tel: 33-1-4561 6589*
Orchestre de Paris: conducted by Paul Daniel in works by Messiaen, Berlioz and Rachmaninov. With mezzo-soprano Vesselina Kasarova; Mar 25, 26

## ROME

**EXHIBITION**
**Villa Medici**
Francesco Salviati: 1510-1563. First major retrospective devoted to Salviati, one of the lesser known Florentine Mannerists. Includes around 135 works. For the duration of the exhibition, there will be guided visits to see his frescoes, the most spectacular of which is in the French Ambassador's study; ends on Sunday

## ROTTERDAM

**CONCERTS**
**de Doelen Hall**
*Tel: 31-10-217 1700*
Rotterdam Philharmonic Orchestra: conducted by Valery Gergiev in works by Debussy, Mussorgsky and Prokofiev. With baritone Dmitri Hvorostovsky; Mar 27

## SAN FRANCISCO

**CONCERTS**
**Davies Symphony Hall**
*Tel: 1-415-864 6000*
*www.sfsymphony.org*
San Francisco Symphony: Herbert Blomstedt conducts Bruckner's Symphony No. 5; Mar 25, 26, 27, 28

## TOKYO

**CONCERT**
**Bunkamura**
*Tel: 81-3-3477 9999*
Tokyo Philharmonic Orchestra: conducted by Kazushi Ono in a concert performance of Janaček's Jenufa; Orchard Hall; Mar 26

## WASHINGTON

**CONCERTS**
**Kennedy Center**
*Tel: 1-202-467 4600*
National Symphony Orchestra: conducted by Eri Klas in works by Mozart, Stravinsky and Saint Saëns; Concert Hall; Mar 26, 27, 28

## TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

**EUROPEAN CABLE AND SATELLITE BUSINESS TV**

● **CNN International**
Monday to Friday, GMT:
**06.30:** *Moneyline with Lou Dobbs*
**13.30:** *Business Asia*
**19.30:** *World Business Today*
**22.00:** *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

EDWARD MORTIMER

# Global gloom

In the Communist manifesto, Marx and Engels described a world economy more like that of 1998 than of 1848

You think globalisation is a new phenomenon? Then guess when this passage was written.

"All old-established national industries have been destroyed or are daily being destroyed ... In place of the old wants, satisfied by the productions of the country, we find new wants, requiring for their *satisfaction the products of distant lands and climes*. In place of the old local and national seclusion and self-sufficiency, we have intercourse in every direction, universal interdependence of nations."

That was Karl Marx and Friedrich Engels, writing 150 years ago in the Communist manifesto. As Eric Hobsbawm writes in his introduction to a new edition of the manifesto, to be published next month by Verso: "Marx and Engels described not the world as it had already been transformed by capitalism in 1848, but predicted how it was logically destined to be transformed."

It is ironic that their description of capitalism and its effects should have come (partially) true just when Marxism as an ideology, and as a prescription, *no longer* finds many takers. Hardly anyone now believes matters would be improved by abolishing property in land and all right of inheritance; centralising credit, communications and transport "in the hands of the state"; or extending state ownership.

Perhaps the nearest we have in the 1990s to Marx's and Engels' vision of the destiny of capitalism is to be found in a book published this week by John Gray, professor of European thought at the London School of Economics – a sometime Conservative, alienated and disillusioned by the destructive effects of Margaret Thatcher's free-market policies in Britain in the 1980s.

Prof Gray attacks what he calls the "Washington consensus", according to which free markets and democracy go hand in hand and are in some sense the natural condition of *mankind. He argues that* free trade and laissez-faire policies, so far from being a pre-socialist norm, were only applied systematically in Britain for a few decades in the mid-19th century (just when and where Marx and Engels were writing). But this receded as democracy expanded, and as the ghastly social consequences of unbridled capitalism became impossible to ignore.

Now, he thinks, the same disastrous experiment is being repeated on a global scale, as doctrinaire liberals have seized control of the only remaining superpower and are using its global clout to impose a single model, the "unregulated free market", throughout the world. It will end, he predicts, in disaster.

One does not have to share this apocalyptic vision, or even to think globalisation is a bad thing, to be worried about some of its side-effects. One person who is worried is a man with impeccable free-market credentials: Peter Sutherland, the last director-general of Gatt and chief architect of its successor, the World Trade Organisation.

In a paper published in January, Mr Sutherland and co-author John W. Sewell stress the need to ensure that globalisation's benefits extend to the nearly 4bn people who live in countries with a per capita gross domestic product of less than $1,500 (£900) a year.**

They warn of a "crisis of confidence in the very structure of markets", amplified by the financial crisis in Asia. They urge greater effort to dispel "the invalid concern growing in the developed world that the competition unleashed by global markets will result in a race to the bottom". And they list a number of *problems not caused* but "complicated" by globalisation: environmental degradation, disease, migration, crime and terrorism.

The world's ability to confront these problems, say Mr Sutherland and Mr Sewell, depends on "increasing global co-operation and maintaining an international consensus in support of globalised trade and investment". They think the first step should be a global economic summit of "about two dozen governments", drawn in equal numbers from leading industrialised countries, newly industrialised or "emerging market" countries, and "the least developed countries threatened by marginalisation".

Not everyone will agree with that mechanism. But the problems listed are surely real. The Group of Eight industrialised countries, which does not even include China or India, is hardly an adequate forum for dealing with them.

**False Dawn: The Delusions of Global Capitalism (Granta Books)*

***The Challenges of Globalization (Overseas Development Council, 1875 Connecticut Avenue, NW, Suite 1012, Washington, DC 20009)*

*Edward.Mortimer@FT.com*

PERSONAL VIEW JOSEPH E. STIGLITZ

# Boats, planes and capital flows

As capital shifts rapidly across the globe, emerging markets are left adrift. The answer is to regulate flows

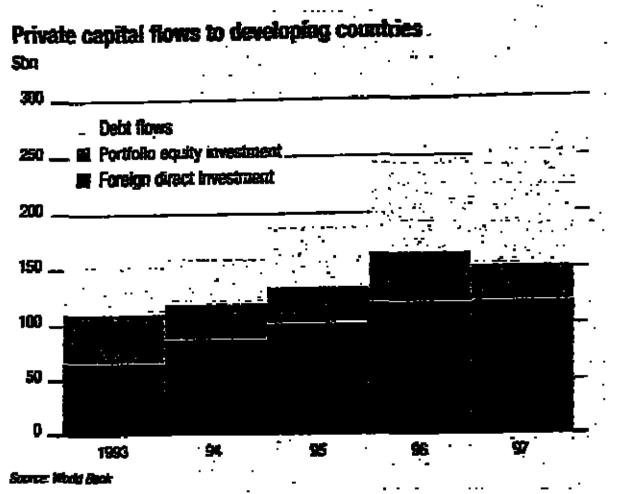
Small open economies are like rowing boats on an open sea. One cannot predict when they might capsize; bad steering increases the chances of disaster and a leaky boat makes it inevitable. But their chances of being broadsided by a wave are significant no matter how well they are steered and no matter how seaworthy they are.

The financial movements of the past few years are like the sea. Net long-term private capital flows to developing countries rose sixfold from 1990 to a record $256bn (£153bn) in 1997, according to the Global Development Finance 1998 report by the World Bank released today. These include foreign direct investment, investment in equity and credits of over a year's maturity. The stock of short-term debt by countries in mid-1997 was $360.9bn.

All developing countries are afloat on this sea. Bond issues and loan commitments to east Asia, south Asia and Latin America all fell by more than half in the fourth quarter of 1997. This illustrates that developing countries are more vulnerable to vacillations in international flows than ever before. Without volatile international capital flows, the East Asian crisis of 1997 would probably have been no more memorable than the South Korean crisis of 1980 or the Thai one of 1983.

Everyone recognises that this is not the best of all possible worlds. What can we do about it?

Part of the answer is easy: insist on more information and greater disclosure. Both the Mexican and the east Asian crises were triggered and exacerbated partly when investors found out that reserves were smaller than they had thought and that short-term debt was higher. Perhaps more important than misleading information was the general lack of it: when the problems became apparent, this made it hard for lenders to distinguish bad companies from good, leading them to shy away from all.




The returns to better information are great, but we should not delude ourselves into thinking that this alone can resolve all the problems. Much existing information seems not to be fully incorporated into market assessments, so there is no guarantee that markets will respond perfectly to perfect information. In a world dominated by private-to-private capital flows, it will be very difficult to estimate the external exposure of an entire economy. And with the increased use of derivatives, it will be virtually impossible. Better information is like a better navigation chart: useful, but not everything.

For emerging markets, another part of the answer is also easy: domestic reforms can create more robust financial markets, more transparent systems of corporate governance, and less error-prone macroeconomic policy. But as with better information, so with better policies. It would be foolhardy to base domestic regimes and the international financial architecture on the assumption that these will be perfect. Developing countries have less capacity for financial regulation and greater vulnerability to shocks. Policy regimes need to be resilient against human fallibility. Aircraft are not designed to be flown just by ace pilots.

So we – investors, emerging markets and the international financial community generally – need to consider a third policy response: towards international capital flows. We cannot expect it to eliminate all crises, let alone all economic fluctuations. But along with domestic reforms and greater disclosure, it reduce their frequency and magnitude.

Some people object to this in principle, arguing that governments should not intervene in international capital markets. This objection is not a good way to begin the discussion. The $110bn package for east Asia is clearly a major intervention in the workings of the free market.

Intervention has been justified on the basis of systemic risk, which is the classic case of what economists call an externality. Externalities can occur when the private risk of investing in a country is smaller than the social risk. This discrepancy may be especially large for short-term speculative capital flows. Whenever there are large discrepancies of this kind (and they would exist if investors believed a bailout were likely even if systemic risk did not exist), then some form of intervention would be justified to bring the private risks into line with the social risk. But what kind of intervention?

There is now broad agreement that foreign direct investment is valuable. It brings not just capital but also technology and training. Preliminary evidence from east Asia confirms that foreign direct investment is relatively stable.

Short-term capital does not bring with it ancillary benefits. True, some short-term capital, especially trade credits, is essential. But when the savings rate is already high, and when the marginal investment is being misallocated, additional short-term capital flows just increase the vulnerability of an economy. The net benefits appear even smaller when the reserves set aside to protect against the volatility of short-term capital are taken into account. From the consolidated balance sheet of the borrowing country, it seems as if emerging economies are borrowing from developed countries at higher rates, only to relend a large fraction back in the form of treasury bills and other low-rate-of-return instruments. The economic slowdown resulting from the crisis in east Asia may more than wipe out the gains from the recent capital inflows.

To extend the airplane metaphor that has been used in this discussion, what is at stake is not just a dramatic aircraft crash, an occurrence so rare that almost no one would question the superiority of air travel, especially for long distances, nor the role of government in enhancing safety. But the record of small planes travelling short distances is in greater doubt.

So what would a new regime for short-term capital flows involve? There are many components.

First, we need to eliminate the tax, regulatory and policy distortions that may have stimulated such flows. Examples of distortions are evident in the case of Thailand where the Bangkok International Banking Facilities in effect encouraged short-term external borrowing. Subtle examples exist almost everywhere.

Second, several countries have imposed prudential bank regulations to limit the currency exposure of their institutions. But these measures may not go far enough, because they do not address the issue of corporate exposure. Among the ideas under discussion are inhibitions on capital inflows, especially of the Chilean type. Chile has imposed a reserve requirement on all short-term capital inflows – essentially a tax on short-maturity loans. Even critics of the Chilean system acknowledge that the reserve requirement has significantly lengthened the maturity composition of capital inflows to Chile. This, together with solid fundamentals and a sound financial system, may be the reason that Chile has been relatively unaffected by recent financial crises.

Still other possibilities that may be more feasible for others include the use of tax policy by, for example, limiting the extent of tax deductibility for interest in debt denominated or linked to foreign currencies.

Other issues have to be addressed at the international level. In spite of repeated resolutions that lenders should bear more of the cost of their risky decisions, the moral hazard problem in the 1990s is, if anything, larger, not smaller than it was in the 1980s. At the same time, workers and small businesses in borrowing countries – innocent bystanders who did not engage in risky transactions – continue to bear huge costs. Now is the time, before the next crisis, to devise orderly procedures for work-outs that will provide better incentives and more equitable cost-sharing.

The financial architecture for nation states took centuries to build; today, concepts like national banking are still controversial in parts of the US. Arriving at a consensus about international reforms could be even more difficult. But the intensified international dialogue on these issues, at the very least, is a promising start.

*The author is chief economist at the World Bank*



## LETTERS TO THE EDITOR

### Spectacle that reflects democracy adapting to information age

*From Mr John A. Skolas.*

Sir, The spectacle of Clinton/Starr/Jones et al is conspicuously absent from Joseph Nye's well-reasoned analysis of declining confidence in government ("We blame the government", March 18). To Mr Bill Clinton's attackers the presidency is soiled. To supporters, congressional and judicial processes have been perverted. Yet, Scandalmania 98 may prove historically significant as democracy adapts to the information age – and not entirely negative.

As to public figures and institutions, credible aphorisms collide. First, the more information the better. Second, familiarity breeds contempt.

Consider what we know about the mere mortals who govern the US and lead its military now versus information publicly available in the 1940s, 1950s and 1960s. Would 1990s style disclosures have dimmed Kennedy's "Camelot" aura in the 1960 campaign? Would cable news coverage of Truman Committee investigations have undermined confidence in the military? In 1990s politics, would Eisenhower have retired and written a book after the second world war – presaging Colin Powell?

In polls, Americans distinguish between the president, the man and the institution of presidency. Mr Clinton has more credibility describing policies that make an impact on people's lives than describing his own life. Republican strategists warn the GOP to develop a substantive agenda beyond bashing Mr Clinton. Substance rules.

Evaluating accusations, accusers, "spin" and media frenzy does not mitigate cynicism, but it does invite patience and sophisticated value judgments – useful skills for voters in an age of too much information.

All this does exacerbate a problem Mr Nye rightly correlates to declining confidence in government – bright people foregoing government service. As to elective offices, deterrents include endangered privacy and constant fundraising - the latter generating less salacious and more bipartisan scandals.

Yet, absent public outrage, politicians reject campaign reform. Government will be as worthy of public confidence as the public demands.

**John A. Skolas,**
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### Gibraltar is no obstacle

*From Mr P.R. Caruana.*

Sir, Your article, "Rock proves a hard place to work into the EU" (March 20), says that Gibraltar has become a considerable obstacle to efforts to force common policies on issues such as asylum, crime, immigration and judicial cooperation.

Gibraltar is a willing participant in all such policies. We take our EU obligations seriously and, as a small territory, spend a disproportionate amount of our financial resources to implement and enforce them.

The "obstacle" is not Gibraltar, but Spain. It is Spain that *constantly vetoes* (or threatens to) EU common values (in numerous areas of activity) unless Gibraltar's participation through our constitutional institutions is excluded, not pursuant to any EU-wide interest, but pursuant to her anachronistic claim to recover the sovereignty of Gibraltar (295 years after she lost it) contrary to the unanimous wishes of the people of Gibraltar. This, even though Gibraltar is an integral part of the EU, having joined with UK in 1973 (13 years before Spain herself joined).

It is not right that the innocent victim of such tactics should be portrayed as "the obstacle" simply because it is small.

**P.R. Caruana,**
**chief minister,**
**6 Convent Place,**
**Gibraltar**

### Contradictions of drive to 'lead in Europe'

*From Mr Raphael Papadopoulos.*

Sir, Lionel Barber "(Winning friends", March 18) praises Robin Cook, the foreign secretary, for having learnt the lesson that speaking in the name of Europe maximises the influence of medium-sized powers such as the UK.

However, your correspondent, perhaps unwittingly, defined the limits of such benefit to the UK by referring to the recent crisis over the UN weapons inspections in Iraq. On that occasion, Mr Barber writes, Britain leant towards a hardline US inclined to military action while France occupied the diplomatic middle ground.

Mr Barber is, of course, right in identifying such divergences in national positions as a serious challenge and obstacle to the establishment of a European defence and security policy. The Iraq crisis, however, *underlined*, more than anything else, the fundamental lesson which the British government has yet to learn; that of the inherent weakness and contradiction in its drive to "lead in Europe", coupled with its willingness to be led by the US, sometimes uncritically and without consultation with the other Europeans.

**Raphael Papadopoulos,**
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### Preparations for euro introduction should be a high priority

*From Mr James Ashe-Taylor.*

Sir, Mr J.M. Langham (Letters, March 13) is wrong to think that he need not review his business strategy to take account of the introduction of the euro. Many large businesses in the euro area – particularly in Germany – will quickly adopt the euro as their "house" currency, and they will expect those doing business with them to present invoices and price lists denominated in euro. Mr Langham's competitors in the euro area will not face the uncertainties and expense of managing the sterling/euro exchange rate risk. The euro will bring price transparency throughout the euro area, and this will intensify cross-border competition, which will affect the ability of companies like Langham Industries to compete effectively.

UK companies also need to address the possibility that the UK may adopt the euro within the next five years. This should affect their current approach to a wide range of issues, from IT upgrades to decisions on fixed-rate borrowing. How will Mr Langham – and his competitors – react when the "domestic" market becomes the whole euro area instead of just the UK? Langham Industries may well be affected by these developments to a lesser extent than some other companies. Nevertheless, for a very large number of UK companies preparing for the euro should be an urgent priority.

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COMMENT & ANALYSIS


# FINANCIAL TIMES

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Wednesday March 25 1998


## Regulating capital flows

As immediate anxiety over the east Asian financial crisis fades, analysts are struggling to learn the lessons. A growing number are thinking about how to limit the excesses of international capital markets. The need for such analysis may be regrettable, but it is also inescapable.

The article by Joseph Stiglitz, the chief economist of the World Bank, in today's FT, explains why. An excellent supporting analysis of the east Asian crisis is provided in this year's Global Development Finance report from the Bank. The report does not just analyse of the mistakes of the afflicted east Asian countries, but also makes astringent comments on the financial institutions of advanced economies.

"Loans came from countries with seemingly well-regulated and transparent financial institutions operated by sophisticated managers without government intervention," it observes. "Yet foreign lenders and investors were not restrained by inadequate financial statements, high short-term debt, or the unhedged foreign exchange exposure present in the financing structure of east Asian banks and firms." Nor should these investors have believed they were insured against losses. If they did, they must now know they were wrong.

Fools and their money are soon parted. Unfortunately it is not just the fools who suffer, nor even the companies and banks they lend to. It is, above all, the workers and those dependent upon them who pay the price – and what a price it is! The shift between 1996 and 1997 in net external private finance to the five most affected economies was some 11 per cent of their combined gross domestic products.

There is no question that every country needs to strengthen its financial system and improve transparency, as everyone agrees. But it would be foolish to believe that such improvements, even if successfully implemented, would eliminate these costly shocks. Markets make huge mistakes. Moreover, the decision-makers directly involved often fail to take into account the wider costs their errors impose. But of all the flows, the most dangerous are short-term loans. Their use to finance long-term commitments, such as investment, is demonstrably unwise.

The case for early and complete freedom for international capital flows has, unquestionably, been damaged. The world's leaders must now ask themselves how to maximise the benefits of capital flows to developing countries, while minimising both the number of panics and the damage they do. Mr Stiglitz discusses some sensible options. Yet what is needed now is not to pretend we already know the answers. It is rather to recognise we must work hard to find them.

## US defence

Having actively encouraged the trend towards concentration in the American defence industry, the US government has now called a halt. This week it filed a law suit to prevent Lockheed Martin buying Northrop Grumman. Lockheed will fight the move, but in the joint action by the justice and defence departments it is facing the opposition of the nation's anti-trust regulator and its main customer.

So the days of the defence mega-merger thus look numbered. The landscape is much changed from a decade ago when the Pentagon insisted on having enough defence contractors to compete on virtually every one of its programmes except nuclear-powered aircraft carriers. Since then, Washington has cautioned defence contractors they could not go on in the style to which the cold war had accustomed them, and warned them that in order to survive they must merge and diversify. The defence companies took this advice so zealously that there are now only about half a dozen of them left.

The Pentagon's main complaint is that Lockheed's takeover of Northrop would make the combination the sole US source of some missile countermeasures, airborne early warning radar and anti-submarine systems. Lockheed hoped to counter these complaints by making the sort of behavioural promises – to act as if the two companies were still partly competing – that have satisfied the government in recent mergers. But this time that was not enough. To satisfy the Pentagon, Lockheed would have had to sell off Northrop's entire electronics business. Since this is precisely the division Lockheed wanted to get its hands on, the company refused.

The Pentagon has also revived concern about "vertical" integration. It argues that Lockheed-Northrop would, as a prime contractor, have too great a vested interest in putting its own products (weapons) on its platforms (aircraft) rather than objectively seeking the best bargain for the Pentagon and the US taxpayer. Ironically, this tendency is a by-product of recent procurement reforms, in the UK as well as the US, which have sought to give prime contractors a bigger role and responsibility. Yet the Pentagon has concluded that procurement reform may have hit its limits, and that there is merit after all in keeping some companies apart.

A greater degree of concentration is inevitable in Europe with its far smaller defence budgets. But the Lockheed case could have lessons for Britain, France and Germany as they ponder how to put their major aerospace companies together.

## In the dock

Protests from European shipbuilders that South Korea is abusing its international rescue package to engage in unfair price competition are the symptom of a deeper problem. From steel to semiconductors, the cure to Korea's financial crisis has not addressed the excess industrial overcapacity that helped cause it.

Yet it would be dangerous for the International Monetary Fund to insist – as European shipbuilders apparently want – on efficient industrial capacity being closed as the price of continuing support, or for governments to apply unilateral trade policy remedies to situations that arise because one country's exchange rate has fallen too far.

Shipbuilding poses special problems, partly because it is not covered by World Trade Organisation anti-dumping procedures. Though Korea has always denied direct subsidies, many of its competitors assume that indirect ones were generous. Cheap credit from banks which had implicit government support enabled large conglomerates to build up excess capacity.

Transfer pricing within conglomerates still makes it impossible to determine the true Korean cost of production or the real prices of domestic sales. The fact that Halla, which declared bankruptcy late last year, is still building ships suggests banks are still prepared to lend at a loss.

But the way of dealing with these problems is through a recognised disputes procedure rather than using the IMF as an instrument of trade policy. A vehicle for dealing with the issue exists in the form of the OECD shipbuilding treaty which has been agreed by the main producers but is sadly not operational because the US has refused to ratify it.

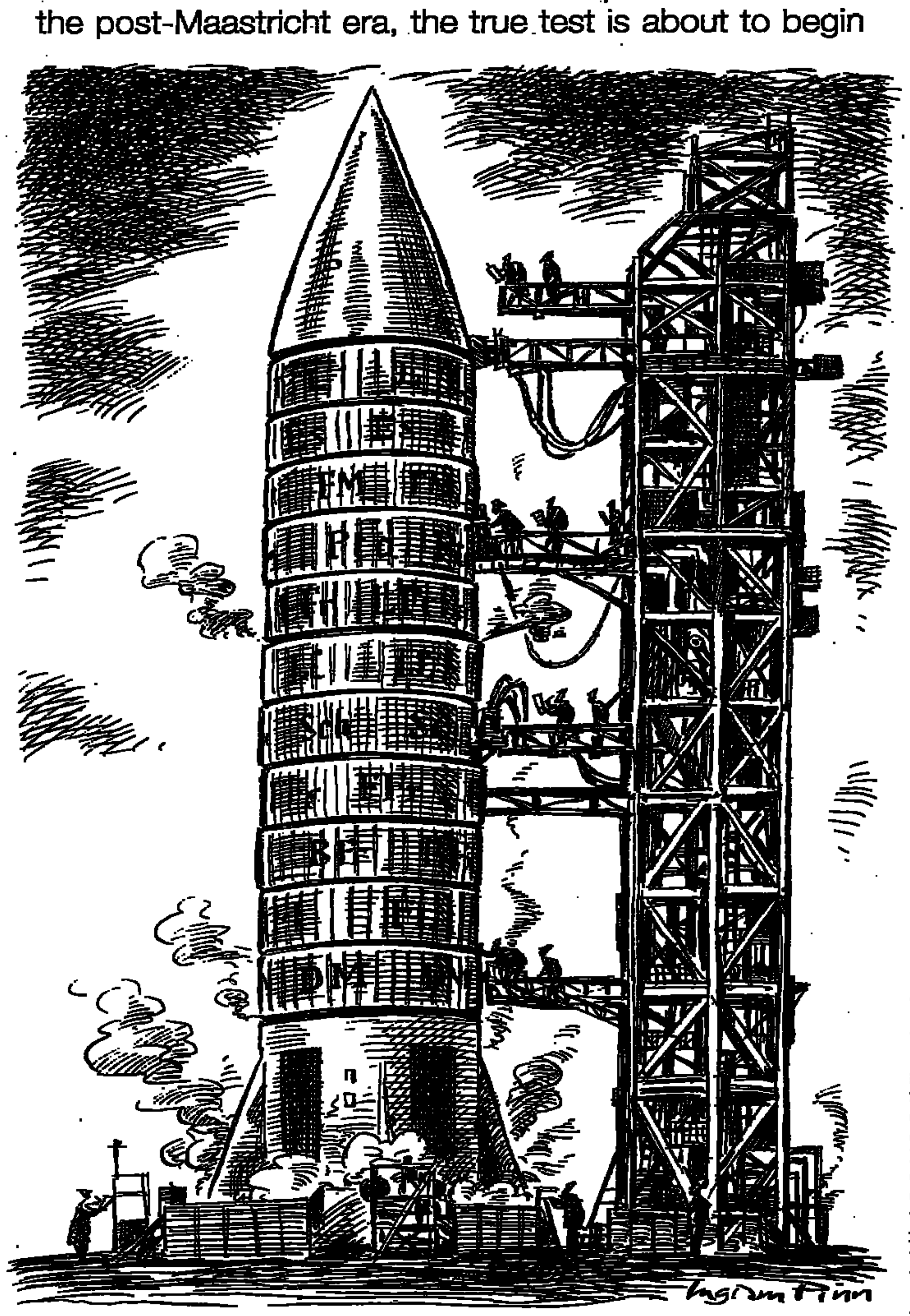
There is no reason why Europe and Korea should not make the treaty operational without the US. This would at last establish a procedure for dealing with dumping and subsidies. But Europe would first, and quite rightly, have to abolish its own open subsidies to shipbuilders.

Ironically for its Western industrial critics, the IMF programme should help in a broader way to sort out the problem. It should help raise Korea's exchange rate as confidence returns, reducing shipbuilders' price advantage. By imposing rationalisation on Korea's banks and conglomerates, it should put an end to transfer pricing distortions and halt the availability of cheap credit.

Externally imposed limits on shipbuilding capacity would simply lead to a cartel. Open markets with effective disputes procedures are the best way of eliminating unfair competition, and ensuring that only efficient producers survive.

# Countdown to Emu

**Lionel Barber** warns that as the European Union enters the post-Maastricht era, the true test is about to begin



The most nerve-racking moments of a space mission are the countdown. So it is with European economic and monetary union.

Today, the European Commission will recommend that 11 countries, including Italy, are ready for Emu. A report from the European Monetary Institute, the forerunner of the European Central Bank, may hint at reservations; but nothing is likely to undercut the Commission's central recommendation in favour of a broad-based currency union.

Just 18 months ago, few would have predicted such an outcome. Spain and Portugal's chances of meeting the Maastricht treaty's entry criteria looked questionable. Italy's prospects appeared remote. Even France and Germany were struggling to meet the public deficit target of 3 per cent of gross domestic product.

The turnaround is due partly to the economic cycle: by boosting tax revenues, growth has helped countries get their fiscal deficits under control. It is also a testimony to political will, especially on the part of Chancellor Helmut Kohl who views Emu as Europe's (and his own) monument to the 21st century. The EMI and Commission reports also point, tentatively, towards a deeper economic transformation, especially in the Mediterranean countries that have embraced hard-money orthodoxy with a passion unthinkable a decade ago.

Yet the most striking development is how the protagonists in the Emu drama – the financial markets, big business, the politicians, and the central bankers – have found themselves co-opted into a collective effort to meet the target date of January 1, 1999. Nobody, it seems, now has a stake in delay or failure.

In theory, the EMI and Commission reports form a neutral economic analysis of the progress that the 15 EU member states have made toward meeting the Maastricht treaty criteria.

In practice, the two documents are an integral part of a political process leading up to the May 1-3 summit when European Union leaders formally decide the founder members of the Emu bloc; the bilateral exchange rates between euro zone countries; and the president of the European Central Bank as well as the five other members of the executive board.

In the past few weeks, the EMI and the Commission have played a game of cat and mouse over their reports. The EMI has expressed concerns about the high level of debt in Belgium and Italy. It has criticised the failure of other countries, notably France, to pass all necessary legislation enshrining the independence of the national central bank and the priority of price stability in government policy. "Central bankers are the ones who are going to run monetary union," says one London analyst. "So they have no interest in picking egg off the ceiling."

Politicians, on the other hand, are more concerned to avoid last-minute hitches. So the Commission has sought to coax the EMI into minimising differences over the interpretation of the treaty criteria, warning that any serious divergence with the Commission's own analysis and recommendation risks dynamiting a smooth transition to Emu.

The same considerations apply to Germany, where public opinion towards exchanging a proven D-Mark for an untested euro oscillates between hostility and resignation. "The Germans have realised that opposition to the euro is futile," says a Commission official. "The government is looking for arguments to defend the decision to the public."

That is why Mr Kohl has invited the Bundesbank to produce its own report, a sly manoeuvre aimed at drawing the central bank into the collective exercise. The Bundesbank assessment will be delivered to the Bonn government on Friday. And though there is dark muttering about a possible minority report from Bundesbank "backwoodsmen", it is the word of Hans Tietmeyer, the bank's president, that counts most. And he has put his signature on the EMI document.

So much for the politics. The outstanding economic question is the degree of real convergence between the *de facto* single currency bloc built around the D-Mark and the new converts to the German stability culture from the south; and whether this convergence is sustainable.

The Commission will publish dazzling graphics today to show that convergence is real and that no one is playing fast and loose with the treaty. This reflects the need for a watertight defence against legal challenges, notably an action pending before the German constitutional court arguing that in effect Emu would be unconstitutional.

The EMI has avoided making individual assessments of each country in recognition that the final word lies with the Commission and EU leaders. The debate has revolved around the interpretation of the four main Maastricht criteria:

**The scope for misunderstanding and conflict in the post-Emu world remains as live as ever**

● Price stability. Member states need to show an average rate of inflation that does not exceed the best three performers by more than 1.5 per cent. By the end of last year, the average rate of inflation in the EU was about 2 per cent, easily enough for Emu aspirants to qualify.

● Exchange rate stability: countries are required to observe the "normal" fluctuation bands within the European exchange rate mechanism for at least two years, without devaluing against the currency of any other member state.

In strict terms, Finland, which joined the ERM in autumn 1996, and Italy, which rejoined the ERM in November 1996, have not served their two years' probation. But their currencies have been stable and the interpretation of the provision is open to dispute, following the suspension of the old "wide band" ERM in August 1993.

The one concern for the UK – which along with Denmark and Sweden is staying out of the first Emu wave – is that the Commission is likely to insist that ERM membership is a pre-requisite for joining the euro – a fact underlined by Greece's decision to join the ERM this month.

● Sustainibility of public finances. The public deficit should be at or close to 3 per cent of GDP, barring temporary or exceptional circumstances.

In 1997, all countries moved mountains to hit the 3 per cent target and all countries, barring Greece, reported last month that they had succeeded. The recovery bolstered their efforts, but so did a series of one-off revenue-generating measures such as Italy's Euro-tax and the French government's use of France Telecom's pension liabilities, which cut the deficit by 0.5 per cent.

● The ratio of public debt to GDP should not exceed 60 per cent – unless it is sufficiently diminishing and approaching the reference value at a satisfactory pace. The interpretation of this last criterion has caused the most controversy among central bankers and the Commission.

Mr Tietmeyer, leading a group of hardliners, says it is difficult to argue credibly that Belgium and Italy have met the target. Their debt, though diminishing, is still twice the Maastricht level. The fact that Germany's debt has been edging upwards, largely because of the costs of unification, has not diminished Mr Tietmeyer's appetite for a fight.

The Belgians have countered that their economy is strong enough to sustain a high level of debt, and that the country's hard currency policy and high primary surplus supports their case. The Italians have been equally robust, resisting pressure for a commitment to a 10-year debt reduction plan.

In a final bid to overcome German (and Dutch) misgivings, the Rome government has produced a draft budget for 1999 and perspectives for 2000 and 2001, including a commitment to use any additional margin of manoeuvre to cut the structural debt. This would offer hope of reducing Italy's stock of debt to about 100 per cent of GDP by 2003.

Bonn remains unsatisfied. Last weekend, at a meeting of fellow EU finance ministers in York, England, Theo Waigel, Germany's finance minister, announced a five-point plan to accelerate debt reduction and tighten budgetary discipline among the Emu bloc countries.

Most countries paid lip-service to Mr Waigel's initiative. But his call to correct unexpected budgetary shortfalls and to use windfall surpluses for debt repayment could create tensions. Unease could be particularly marked in France, where the Socialist government has never been enamoured of a mechanical approach to fiscal discipline and would prefer to use budgetary savings to tackle the problem of chronic unemployment.

This is where Emu could come unstuck. For while the question of which countries qualify for the single currency seems a forgone conclusion, the scope for misunderstanding and conflict in the post-Emu world remains as live as ever.

Alexandre Lamfalussy, the former EMI president, believes that the greatest risk is not the well-documented asymmetric policy shock such as an oil crisis which affects different regions of the EU in differing ways.

The more serious risk, he says, is that EU governments will be tempted into asymmetric policy responses to deal with unemployment and the reform of the welfare state. The commitment of the French and Italian governments to introduce a 35-hour working week – in the face of stiff opposition from national employers federations – could be an indication of tensions to come over, for example, labour flexibility. As if in reaction to this fear, at the weekend meeting in York, EU finance ministers agreed to co-operate even more closely on budgetary, tax and other economic policy.

Today's reports show that Europe is soon to enter the post-Maastricht era. After the first few nerve-jangling moments of single currency lift-off, the real test will begin: getting the euro into orbit.

# OBSERVER

## Middelhoff's Random coup

To hear Bertelsmann executives tell it, Thomas Middelhoff has, single-handed, prised one of the jewels of the publishing world from the media empire of brothers S.I. and Donald Newhouse

The 44-year-old heir apparent at the private German company was dispatched to New York last summer to learn more about a market Bertelsmann believes will play a big part in its future. It didn't take him long to pounce: friends say it was at the 70th birthday bash for S.I. last November that Middelhoff floated the audacious idea that the American media mogul should sell Random House, whose publishing imprints include some of the most famous names in the business.

Middelhoff had already done the rounds of the American media elite, including meeting Sumner Redstone and Rupert Murdoch, both of whom are widely thought to be considering selling large book publishing businesses. The publishing world had not guessed, though, that Newhouse would be first to sell.

Just why the Newhouse family decided to quit after 18 years in book publishing is less clear.

The estimated price tag of \$1.5bn or more would no doubt come in handy if, as reported, the family faces large estate duties. There have also been signs of the Newhouses adopting a more hard-nosed attitude to a media group known more for its glamour than its profits.

The chronically unprofitable New Yorker, edited by Tina Brown, is being combined with other magazine activities. And Tina's husband, Harold Evans, left Random House's hard-cover imprint last year after racking up as much fame for his large advances as for his publishing coups. It sounds suspiciously like the end of an era in the glittering New York publishing world.

## Pay cut

PepsiCo boss Roger Enrico is joining the US boardroom fashion for philanthropy. He's cutting his salary from \$900,000 a year to \$1, giving the balance to fund scholarships for children of employees earning under \$60,000 a year. The son of a blue-collar worker from Chisholm, Illinois, he got his own college education through a scholarship.

"My father worked on the front line all his life – in an iron ore processing plant. I know what a difference he made," says Enrico in a letter to employees of the US soft drinks and salty snacks outfit. "I also know how much it meant to him when I received a scholarship that enabled me to go to college."

Enrico isn't the only top American boss keen to give up his riches. John Malone, the Denver-based boss of Tele-Communications Inc, the biggest US cable TV group, has set up a \$1.5bn family foundation to benefit education, which will be endowed with most of his 42m shares in TCI. Fellow cable king Ted Turner says he will give \$1bn over 10 years to the UN.

Enrico should be able to scrape by on his annual bonus, which came to \$1.8m last year.

## Crude tactics

Venezuelan energy minister Erwin Arrieta can't have enjoyed his weekend in Saudi Arabia, where he grudgingly agreed to reduce oil output by 200,000 barrels per day to help boost oil prices.

He's celebrating his return by having a go at the media for publishing false information to manipulate the oil price. He says an allegedly false news agency dispatch reported a tiff between Venezuela and Saudi Arabia, resulting in a drop in oil prices. "An important buyer" bought in, says Arrieta, then sold when another wire report about the health of King Fahd – again allegedly erroneous – sent the price up again.

But by the time Arrieta set off for Riyadh, Luis Giusti, the head of state-owned Petróleos de Venezuela, had acknowledged what the world had long suspected – Venezuela was producing well over its Opec quota. Nonetheless, Arrieta insisted for 18 months that Venezuela was abiding by its quota. That sounds uncommonly like giving false information about oil output.

## Folding papers

Small doesn't mean beautiful for the Liberian press. It's not a huge industry, some titles appear irregularly, and most sell under 3,000 copies. Now the government has banned any media organisation that can't prove it has \$10,000 in the bank and any newspaper with a daily circulation of less than 4,000.

In case that doesn't solve whatever the authorities consider to be the problem, the information ministry says it can shut any paper "used against the state to cause chaos, disharmony, public disorder". Unfair reporting is also cause for closure. Newspapers are planning to contest the new laws in court. They'd better be careful what they write about the case.

## For example

There's a bit of jealousy in Bucharest over the goings-on in Moscow. Romanians are fed up after months of infighting in premier Victor Ciorbea's coalition: mediation by president Emil Constantinescu has failed to produce anything resembling order.

Yesterday's Romanian press was quick to report Boris Yeltsin's sacking of the whole Russian government – and to demand that Constantinescu follow suit.

## Legal sense

The US Supreme Court this week rejected a Florida woman's case that she had a constitutional right to work as a prostitute. Meanwhile in New York, a jury threw out an attempt to sue supermodel Cindy Crawford for \$2m after a woman hurt her ankle following Crawford's gyrations on a work-out video.

Maybe the American tide is at last turning against silly litigation.

The Financial Times

## 100 years ago

**Scandal in America**

An American has actually been found who, although engaged during the past twenty-five years in printing railway tickets, has never requested or accepted a railway pass. In a country where "deadheads" abound on every train, the discovery may well be regarded as phenomenal. The free pass system on many of the American railroads was, in the past at any rate, a crying scandal. The story is told of a certain legislator who received a wire informing him that his wife was dangerously ill. He rushed for the train, only to find that he had forgotten his pass. He was in despair until the inspector reminded him that he could purchase a ticket. "Great Scott, I never thought of that," exclaimed the relieved legislator.

## 50 years ago

**Crisis in Italy**

Milan, March 24th. The situation throughout the whole of Italy is becoming tenser hour by hour. The lack of newspapers is becoming dangerous, as often the wildest rumours are spread and believed. Late last night serious rioting broke out in Milan. Three U.S. newspaper reporters were besieged by an angry crowd of Communists for taking pictures of the rioting. The Communists are spreading rumours of the landing of American troops in Italy.

# FINANCIAL TIMES

WEDNESDAY MARCH 25 1998



THE LEX COLUMN

## Indecision in euroland

The European Monetary Institute is expected to give its blessing today to all 11 candidates for the single European currency, so everything must be fine. Well, not quite. Important issues remain unresolved – notably, what will happen if a banking crisis hits euroland? There is, admittedly, no sign of such a crisis. But the notion is not so crazy. The euro's launch will expose protected and inefficient banking industries to competition. Add to that a one-size-fits-all monetary policy that could exacerbate booms and busts in peripheral countries, and some banks could be vulnerable.

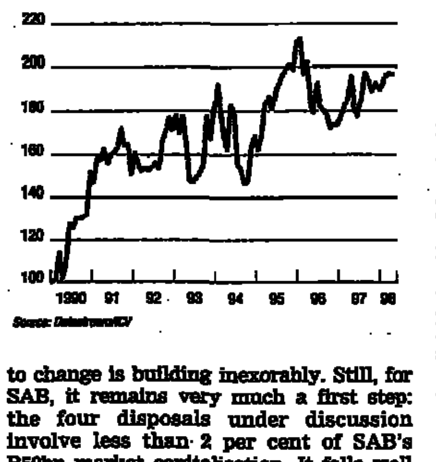
Of course, there is nothing wrong with a few banks going to the wall. Indeed, it could be salutary. The problem would be if a panic ensued, engulfing even sound institutions in a liquidity crisis. The traditional remedy is for the central bank (or allied institution) to act as a lender of last resort. But herein lies the rub. Under economic and monetary union, the European Central Bank may not have the desire to perform this role, particularly if problems are localised, on the grounds that the common purse should not be used to bail out the foolhardy. But national central banks may no longer have the authority to supply limitless liquidity to their local banks either. An effective response could slip between the bureaucratic cracks.

One reason why there is no clarity on what would happen is that different national central banks have conflicting views. The Bundesbank is uneasy with the idea of a lender of last resort *per se*, fearing it encourages foolish behaviour; others are reluctant to force the issue until the single currency is up and running. There is even a theory that the institutional framework will develop only when there is a crisis. But that is asking for trouble. Surely one lesson of Asia's financial crisis is the need to be well prepared. Any clear procedure would be better than a vacuum.

### South African Breweries

Unbundling is spreading like a brushfire through corporate South Africa. Hard on the heels of big deals in the mining and finance sectors, the country's premier blue-chip industrial company is now planning to prune its portfolio. South African Breweries' announcement underscores the momentum unbundling now has. The pressure on laggards, and there are many, to change is building inexorably. Still, for SAB, it remains very much a first step: the four disposals under discussion involve less than 2 per cent of SAB's R50bn market capitalisation. It falls well short of embracing the idea that focus involves selling even good businesses if they are non-core. Hence there is no mention of SAB's holdings in Edgars and Plate Glass, respectively clothing and glass businesses.

**South African Breweries**
Share price relative to the JSE Overall




Source: Datastream/ICV

Shareholders should put pressure on SAB to take this next step and focus on its core businesses. Its brewing prowess is undisputed and its understanding of the developing consumer is a powerful competitive advantage. It has already expanded successfully in Africa, eastern Europe and China, and this part of the business is sure to increase in importance. This is especially so with the government intent on tightening competition legislation. With over 90 per cent of the South African clear beer market, SAB will clearly be a prime target.

### Transatlantic defence

With the US government sinking its teeth into the merger between Lockheed Martin and Northrop Grumman, General Electric Company's chances of buying into the US defence market have improved. Tasty defence electronics and radar morsels may be thrown across the Atlantic as the price of getting the merger approved.

They would certainly be more palatable than mini-conglomerates with relatively small defence businesses such as Litton Industries and ITT. Still, GEC would remain a relatively small player in the US compared with Boeing, Lockheed or Raytheon. And the Pentagon might be reluctant to let a non-US company get its hands on the juicy prime contractor jobs.

Nevertheless, having a credible US alternative should improve GEC's negotiating position with European players. A more serious flirtation could flush out a good deal.

Ideally, that would mean the French accepting a merger between GEC and Thomson-CSF on terms that allow the rationalisation of the combined business. Wielding the US option as a stiff stick in European restructuring negotiations should therefore enable GEC to drive a hard bargain for its shareholders. The same goes for British Aerospace. Certainly, an array of choices would avoid the need for a suboptimal merger between Britain's top two defence groups – which would neither open up new markets nor offer big scope for cost-cutting.

### UK dividend yields

So the dividend yield on the FTSE All-Share index is at its lowest levels since the First World War. That is a pretty good indication the market is overvalued, most would assume. The 2.77 per cent gross yield is received by few investors now that pension funds have lost their dividend tax credit. With most getting their dividends net, that leaves a yield of 2.35 per cent. Assuming 2¼ per cent real annual dividend growth, in line with past economic growth, this would produce inflation-adjusted total returns of under 5 per cent. Given that index-linked government bonds yield a touch under 3 per cent, the premium investors receive for holding equities would be only 2 per cent. That is almost certainly unsustainably low.

It is, of course, possible to slice the figures differently. Low inflation and good supply-side policies may have pushed up Britain's underlying economic growth. And Britain's companies participate in faster growth elsewhere. Moreover, dividends may be able to grow faster than the economy; conceivably, profits may gobble up an increasing proportion of the economic pie.

Add all that together, and real returns could scrape to 7 per cent – giving a healthy 4 per cent premium over bonds. Still, all that looks pretty optimistic.

# Developing countries may suffer private capital fall

By Peter Montagnon, Asia Editor

Private capital flows to developing countries are likely to fall this year in the wake of the Asian economic crisis from the record of $256bn set in 1997, the World Bank says.

The bank's figures, in its annual analysis of Global Development Finance, show that private flows now vastly exceed official aid, which has been declining for many years.

Official aid did rise last year to $44bn from $35bn, mainly because of the international rescue package for Thailand.

The World Bank says the Asian crisis will lead to slower flows of capital through the international bond and equity markets. But it says this may be offset to some degree by higher foreign direct investment, which accounted for 47 per cent of flows to developing countries last year. This may even increase in 1998 as multinational companies seek to exploit low asset prices and production costs in Asia resulting from currency devaluations.

The prospects for capital flows are uncertain, however, and will depend on policy responses in the countries most affected by the crisis. With suitable corrective action the disruption to capital flows should not last too long, the bank says, noting the speed with which Argentina and Mexico were able to return to international capital markets after the 1994-95 crisis.

But the downside risks are considerable, the bank says, and there is a chance that private capital flows will fall sharply. Continued devaluation in Asia will lower the competitiveness of countries such as China, whose currencies have maintained their parities. Intensification of the crisis could cause industrial country stock markets to fall, prompting a "flight to quality", which would hit flows to emerging markets.

International banks with exposure in east Asia could also be placed at risk, the World Bank says. The assets of banks from the leading Group of Seven industrial countries in the five Asian countries hardest hit by the crisis amount to 27 per cent of their total capital.

For Japanese banks the ratio is 43 per cent, although the overall share is lower than the 60 per cent of capital tied up in Latin American loans by industrial country banks during that region's debt crisis of the 1980s.

The World Bank says it is struck by the role played in the Asian crisis by a self-fulfilling loss of market confidence. Asian countries had made themselves vulnerable by weakness in their financial sectors, poor corporate governance, failure to accompany financial liberalisation with better regulation and supervision, and by exchange rate regimes that encouraged external borrowing in liquid international markets.

Lenders and credit rating agencies also failed to assess the situation properly, it says, but a big problem was the loss of confidence caused by lack of transparency, which prevented investors from distinguishing between good and bad debtors. With this factor aggravated by substantial uncovered foreign exchange exposure, currency depreciation became self-perpetuating.

**Expert credits rise, Page 4**
**Personal view, Page 14**
**Editorial Comment, Page 15**

# Japanese property market 'could still decline', warns top developer

By Gillian Tett and Paul Abrahams in Tokyo

Residential property prices in Japan will continue to fall, one of the country's leading real estate developers has warned.

Minoru Mori, president of Mori Building, said: "My personal opinion is that we have hit the bottom for commercial property prices but that residential property prices could still decline."

The comment could dent hopes that Japan is poised to see a long-awaited rebound in its property market, seven years after the collapse of the 1980s bubble.

Although Mori Building is unlisted, it is one of Japan's few profitable building groups and has successfully forecast several turning points in recent years.

Mr Mori also predicted a key annual survey from the National Land Agency tomorrow, which is conducted every January, would show a further fall in property prices. "I think the decline is in single digits," he said.

The weakness of the property market is a blow to the Japanese government because the real estate sector is considered to be an important influence in dragging the economy down and creating the banking sector's bad loans.

In the last six years property prices have fallen every year, leaving commercial prices in Tokyo some 70 per cent below their peak. Last year the NLA survey showed residential prices fell 1.6 per cent in the capital and 7.8 per cent across Japan as a whole.

The government had hoped that the property market was finally bottoming out. These hopes had attracted foreign investor interest. "Many inquiries have come from US institutional investors recently who think that the prices have gone to the bottom," Mr Mori said.

However, recent quarterly NLA surveys have suggested that the decline in residential property prices actually accelerated, not slowed, recently, while commercial prices continued to fall. So far US buyers have concluded few significant deals.

"US investors want immediate profits. They can't wait three or four years ... apparently they have not found anything very satisfactory yet," Mr Mori said. He blames this partly on the country's land laws, which divide properties into small, unprofitable parcels which are complex and time-consuming to develop.

Nevertheless, Mr Mori said rents for prime sites in central Tokyo were now rising. Vacancy levels in the Mori Building portfolio in the area had fallen to 3 per cent.

## Hong Kong property market gets a lift

Hong Kong's moribund real estate market was buoyed by welcome news yesterday as two plots of government land fetched higher than expected prices at auction.

The news lifted prices on the local stock exchange at the end of trading.

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CONTENTS



**Directory of online services via FT Electronic Publishing**

FT.com: the Financial Times web site; online news, comment and analysis. http://www.FT.com
The Archive: online archive of back issues of the newspaper since July 1996. http://www.archive.FT.com
Newspaper subscriptions: information, offers and online ordering. http://www.ft.com/newspaper/subscribe.htm
FT Annual Reports Service: online ordering of annual or interim reports and accounts of 1200 UK plcs http://www.ft.com/newspaper/222a.htm
Citydine: how to get share prices and market reports by telephone and faxback. http://www.ft.com/newspaper/2178.htm
Surveys: details of forthcoming editorial surveys. http://www.ft.com/newspaper/2366.htm

French farmers protest at proposed agricultural reforms. Page 2

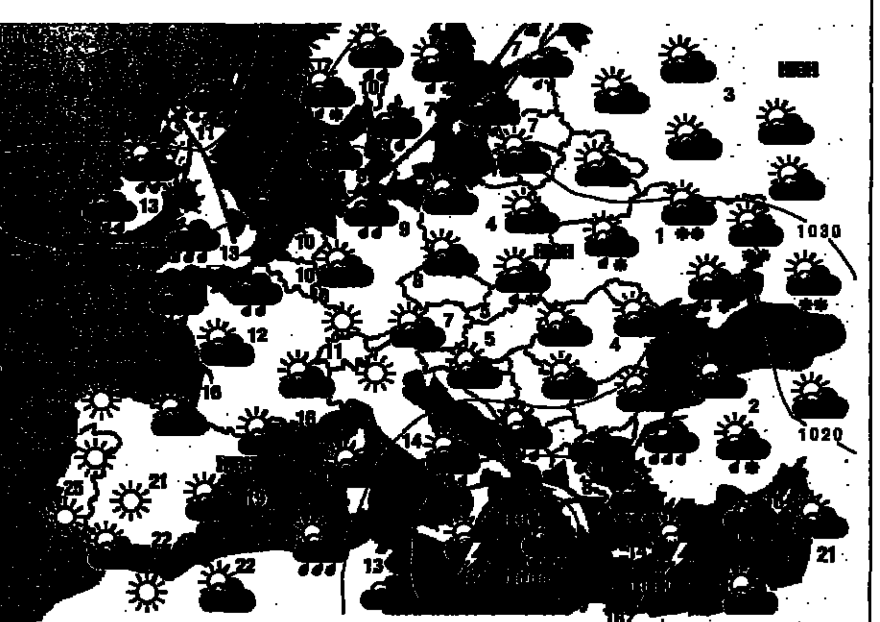
FT WEATHER GUIDE

**Europe today**

South-eastern Europe will be cold with thunderstorms over Italy spreading eastwards across the eastern Mediterranean. Flooding will be a threat, especially in western Turkey. The Balkans will have wintry showers but central Europe will be dry with sunny intervals. The western Mediterranean will be fine with plenty of sun, especially across the Iberian Peninsula. Cloud and rain will move into north-western Europe and Scandinavia, turning to wintry showers over Norway.

**Five-day forecast**

The eastern Mediterranean will have more thunderstorms. It will stay cold but should become drier by the weekend. Rain will move into the Iberian Peninsula later in the week with north-west and central Europe seeing further bands of rain at regular intervals.




Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

| | | Maximum Celsius |
|---|---|---|
| Abu Dhabi | Cloudy | 28 |
| Accra | Fair | 32 |
| Algiers | Fair | 22 |
| Amsterdam | Rain | 10 |
| Athens | Rain | 8 |
| Atlanta | Fair | 22 |
| B. Aires | Fair | 20 |
| B.ham | Rain | 12 |
| Bangkok | Shower | 36 |
| Barcelona | Fair | 17 |
| Beijing | Sun | 16 |
| Belfast | Cloudy | 13 |
| Belgrade | Fair | 6 |
| Berlin | Fair | 8 |
| Bermuda | Shower | 21 |
| Bogota | Fair | 20 |
| Bombay | Sun | 33 |
| Brussels | Fair | 10 |
| Budapest | Fair | 5 |
| C.hagen | Rain | 8 |
| Cairo | Fair | 23 |
| Caracas | Fair | 30 |
| Cardiff | Rain | 11 |
| Casablanca | Fair | 23 |
| Chicago | Shower | 12 |
| Cologne | Fair | 10 |
| Dakar | Fair | 26 |
| Dallas | Sun | 25 |
| Delhi | Fair | 26 |
| Dubai | Cloudy | 29 |
| Dublin | Cloudy | 13 |
| Dubrovnik | Shower | 12 |
| Edinburgh | Rain | 11 |
| Faro | Sun | 21 |
| Frankfurt | Sun | 11 |
| Geneva | Sun | 11 |
| Gibraltar | Fair | 22 |
| Glasgow | Rain | 11 |
| Hamburg | Fair | 10 |
| Helsinki | Shower | 7 |
| Hong Kong | Cloudy | 22 |
| Honolulu | Fair | 28 |
| Istanbul | Shower | 8 |
| Jakarta | Thunder | 32 |
| Jersey | Rain | 11 |
| Johannesburg | Fair | 24 |
| Karachi | Sun | 33 |
| Kuwait | Fair | 21 |
| L. Angeles | Fair | 19 |
| Las Palmas | Fair | 26 |
| Lima | Cloudy | 30 |
| Lisbon | Sun | 25 |
| London | Fair | 13 |
| Lux.bourg | Fair | 10 |
| Lyon | Fair | 12 |
| Madeira | Fair | 22 |
| Madrid | Sun | 21 |
| Majorca | Fair | 17 |
| Malta | Thunder | 12 |
| Manchester | Drzl | 12 |
| Manila | Fair | 31 |
| Melbourne | Fair | 22 |
| Mexico City | Sun | 29 |
| Miami | Sun | 28 |
| Milan | Sun | 16 |
| Montreal | Fair | 4 |
| Moscow | Fair | 2 |
| Munich | Fair | 9 |
| Nairobi | Fair | 27 |
| Naples | Shower | 11 |
| Nassau | Fair | 26 |
| New York | Sun | 8 |
| Nice | Fair | 16 |
| Nicosia | Rain | 15 |
| Oslo | Shower | 10 |
| Paris | Shower | 12 |
| Perth | Sun | 33 |
| Prague | Fair | 8 |
| Rangoon | Thunder | 36 |
| Reykjavik | Sleet | 3 |
| Rio | Fair | 28 |
| Rome | Fair | 14 |
| S. Frsco | Fair | 16 |
| Seoul | Fair | 10 |
| Singapore | Thunder | 34 |
| Stockholm | Cloudy | 7 |
| Strasbourg | Sun | 12 |
| Sydney | Shower | 23 |
| Tangier | Fair | 22 |
| Tel Aviv | Fair | 21 |
| Tokyo | Fair | 14 |
| Toronto | Fair | 9 |
| Vancouver | Rain | 10 |
| Venice | Sun | 14 |
| Vienna | Sun | 7 |
| Warsaw | Rain | 6 |
| Washington | Fair | 13 |
| Wellington | Fair | 20 |
| Winnipeg | Cloudy | 11 |
| Zurich | Sun | 8 |





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FINANCIAL TIMES
# COMPANIES & MARKETS
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## INSIDE

### Continental takes global strategy

Since Hubertus von Grünberg (left) became chairman in 1991, Continental, the German tyre manufacturer, has achieved a remarkable turnaround. The company's transformation has come partly because production is being moved from western Europe to cheaper sites in eastern Europe, Latin America and Asia. Last week it announced a 67 per cent increase in net income in 1997 to DM322m ($177m). Page 19

### Hindalco plans aluminium expansion

Hindalco Industries, India's second largest aluminium producer, plans to build a greenfield aluminium complex in the eastern state of Orissa. The growing middle class, an expanding car sector and plans for a national power transmission network will ensure growth in aluminium demand of 8-9 per cent a year in India. One analyst says Hindalco's decision is "the right move at the right time". Page 23

### Sceptical Kiwis lack confidence

New Zealand investors are steadfastly ignoring last week's surprise attempt by Don Brash, the Reserve Bank governor, to reinvigorate the economy by easing monetary policy. After an initial surge, equities have resumed their recent pattern of dull trading. The lack of progress reflects continuing low levels of national business and consumer confidence. Page 38

### Diamond mining licences refused

The Indian state of Madhya Pradesh has rejected bids from De Beers and Rio Tinto for licences to explore and mine what many believe is a diamond hot spot. Madhya Pradesh said the bids were rejected because neither De Beers nor Rio Tinto would adhere to the state's preconditions. Page 28

### Market awaits Euro report

The publication today of the European Monetary Institute's report on economic and monetary union left foreign currency markets on hold. The report will make recommendations on the efforts towards convergence made by aspiring members of the European single currency. But analysts said there was only a slim chance of it having a dramatic impact. Page 27

### Russian eurobond in demand

Investors took Monday's sacking of the Russian government in their stride when they rushed to buy the country's latest DM1.25bn ($680m) offering of seven-year eurobonds. Page 26

### Oil falls as traders pause for breath

World oil prices fell yesterday after jumping more than $2 a barrel on Monday. Traders said the market was pausing for breath after reacting to the weekend deal between oil producers to cut output. Page 28

### Europe continues record run

Another set of records across Europe indicated that it would take some remarkably bad news to halt the global bull market in equities. Page 38

## COMPANIES IN THIS ISSUE



CROSSWORD, Page 28

## MARKET STATISTICS



# Roche surprises with $4.2bn charge

## Swiss pharmaceuticals company reports accounting loss of SFr2bn to cover costs of Corange acquisition

By William Hall in Zurich

Roche, Switzerland's second biggest pharmaceutical company, surprised the stock market yesterday by taking a SFr6.3bn ($4.2bn) charge partly to cover costs related to its SFr15bn acquisition of Corange, owner of the Boehringer Mannheim diagnostics and drugs business.

The charge was more than four times higher than expected and reflected Roche's decision to take a SFr4.45bn charge against 1997 income for the costs of "acquired in-process research and development" at Corange.

Henri Meier, chief financial officer, said that in the past Roche would have charged these costs to shareholders' funds but following a change in international accounting rules in 1995 it had changed its accounting treatment.

Mr Meier said he believed Roche was the first large drugs company to follow this course. Roche said that in purchasing Corange it had acquired a "number of promising products and systems for further development. Their value was determined and a portion of the purchase price was paid for them."

Research and development costs for Roche's own projects are charged against income for the reporting period in accordance with international accounting standards. Roche said there was "no basic difference between such costs and costs related to acquired research and development projects", and as a result it had taken a charge against 1997 income in accordance with its own accounting policies.

Rene Nordmann, of Bank Sal Oppenheim in Zurich, described the restructuring charge as "very positive" because it would mean smaller goodwill writedowns in future years. However, other analysts were less complimentary about what they regarded as a "very liberal" interpretation of international accounting rules.

Genghis Lloyd-Harris, of Credit Suisse First Boston in London, estimated the write-offs would have the effect of boosting future earnings per share by 5 per cent because it would reduce the annual goodwill amortisation by an estimated SFr222m a year.

Stewart Adkins, of Lehman Brothers, said it would boost his estimate of Roche's 1998 earnings per share from SFr470 to SFr487.

Roche charged another SFr1.3bn for the costs of integrating Corange and Tastemaker, a recently acquired US additives business, and SFr565m for restructuring its own pharmaceuticals business.

Roche said it had launched a "Pharma Performance Initiative" in response to structural changes in the pharmaceuticals industry and costs pressures. It said the charges would "strengthen Roche's near-term and long-term position in an increasingly competitive market environment".

As a result of the charges Roche reported an accounting loss of SFr2.08bn. Net income before special charges rose 10 per cent to SFr4.28bn, and the company raised its dividend for the 11th year in a row with an 11 per cent increase to SFr83 per share.

Roche's results were announced after the close of the stock market. Its non-voting certificates, its most widely quoted security, closed SFr110 lower at SFr16,460.

# London-based equity derivatives arm to go in ING Barings revamp

## Investment bank focus to shift away from emerging markets

By Clay Harris,
Banking Correspondent

ING Barings is to close its London-based equity derivatives business as part of a re-organisation that gives priority to its investment banking activities in western Europe at the expense of emerging markets.

The shake-up precedes next week's announcement of 1997 results by ING, the Dutch parent financial services group.

It follows a cut last month in Barings' activities in Latin America and tensions over 1997 staff bonuses.

The retrenchment had raised questions about ING's commitment to the bank which it rescued three years ago after derivatives trading by Nick Leeson brought its collapse.

Arjun Mathrani, ING Barings' chief executive, said these concerns were "unfounded". ING was "committed to corporate and investment banking". He said ING Barings remained committed to emerging markets, including Latin America, but its focus had been "rebalanced" in favour of Europe.

Jeremy Palmer, head of Asian operations, has been appointed head of equities and investment banking. He will lead Project Europe, ING's investment banking initiative in the region. The changes would eliminate most of the 300 worldwide jobs in the equity financial products group which were based in London, Mr Mathrani said.

The group would be wound down with the help of a second derivatives business, which would continue to be run by the bank's Amsterdam-based treasury operation. The Amsterdam operation, focused on countries in the Organisation for Economic Co-operation and Development, required less capital than the emerging markets oriented London business, he said.

The bank also announced a structure to improve management accountability. It will be based on three regions, Asia, the Americas and Europe, Middle East and Africa, and three product areas: equities/investment banking, treasury and emerging markets, high yield-debt/derivatives.

Yesterday's shake-up, however, does not necessarily complete the changes at ING Barings. Mr Mathrani told staff: "There is no magic, ready-made, magical solution to our current challenges. "Our path to greater profitability will involve a series of discrete, bite-sized management and restructuring initiatives."

Lex, Page 16

Audi chief executive Franz-Josef Paefgen yesterday announced a 29 per cent increase in pre-tax profits for the German car maker to a record DM1.11bn ($605m). He said the rise in sales and profits was likely to be repeated next year. Report, Page 20. Picture Reuters

# Mexican bank law reform to ease rules on foreigners

## Unrestricted foreign ownership of local banks possible

By Leslie Crawford in Mexico City

Mexico's banking laws will be reformed to allow unrestricted foreign ownership of domestic banks, banking regulators said yesterday. President Ernesto Zedillo will send a draft bill proposing the elimination of all curbs on foreign ownership of financial institutions to Congress in the next few days.

The National Banking and Securities Commission announced one element of the proposed reform yesterday. Foreigners will be able to buy A shares in Mexican banks. The shares have full voting rights and currently can be held by Mexicans only.

Bank shares rose on the announcement and led a rally on the Mexican stock exchange, whose index had gained 4.9 per cent by mid-day.

Banking regulators said the legislation is aimed at strengthening the depleted capital base of Mexican banks. It will introduce the most significant reforms to Mexico's financial system since banking laws were hastily modified in 1995 at the height of Mexico's financial crisis to allow limited foreign ownership of Mexican financial groups.

The 1995 reforms let foreigners buy small domestic banks, but it prohibited foreign control of Banamex, Bancomer and Serfin, Mexico's three largest banks, which together hold more than 50 per cent of the banking system's assets.

Banking supervisors said investors, foreign or Mexican, seeking to buy more than 5 per cent of a financial group would still require authorisation from the National Banking and Securities Commission. But if Congress approves the legislation, foreigners will no longer be restricted by law to a maximum 49 per cent shareholding in Mexico's three largest banks.

The legislation appears tailor-made to allow an eventual foreign takeover of Serfin, the most troubled of the three big banks. In recent months, HSBC Holdings and J.P. Morgan acquired stakes in Serfin of 19.9 per cent and 8.6 per cent respectively. The Mexican government, which owns 32 per cent of Serfin after injecting more than $450m in new capital to avert the bank's collapse, is understood to be keen to divest as soon as possible.

Salvi Folch, director of securities supervision at the National Banking and Securities Commission, said the reforms would eliminate price differentials between full voting and other classes of share, bring more liquidity to banking stocks, and should attract more foreign investment into the Mexican banking sector.

He said the elimination of restrictions on the foreign ownership of A shares "automatically opens the possibility that any financial institution in Mexico can be controlled by foreigners".

He added that the changes in share-ownership would go hand in band with reforms that would lift the restrictions on foreign control of Mexico's three largest banks.

BARRY RILEY

# Openings for closed funds

Beleaguered British closed-end investment funds, known as investment trusts, are struggling to find a secure long-term role, while predators and dissatisfied investors combine to pick them off one by one.

On Monday the Association of Investment Trust Companies, the £60bn ($100bn) sector's trade body, privately staged a special strategic discussion.

Its committee members will have found some comfort in the recent narrowing of the average discount of share prices to underlying assets, down 2 percentage points to 10.5 per cent in a month. The restructuring of several trusts has had an effect.

It was the ballooning of that discount to, at worst, 14 per cent last September that set alarm bells ringing and alerted predators.

This recent discount problem is explained in several ways. There was excessive creation of paper during the new issue boom in the early 1990s; investment performance has been generally indifferent; institutional investor support has dwindled; and investors are militant over "shareholder value".

The case of the £200m Overseas Investment Trust illustrates several of these themes. The fund's investment performance has recently been unexciting, with (as is typical of UK-based global managers) too much invested in the Far East and too little in the US.

Its discount widened to 15 per cent at one stage last year. One big institutional shareholder, Liverpool Victoria Friendly Society, changed its investment director and became a willing seller of its 14 per cent stake.

The situation attracted London market makers and New York arbitrageurs, and a provisional wind-up motion was forced through at a sparsely-attended annual meeting. Next week, shareholders are due to approve the trust's break-up.

Is the game up for closed-end funds? Once, they could languish for years on much bigger discounts than are now common.

Yet the potential advantages of the closed-end format remain: the ability to invest on a long-term basis in possibly illiquid assets, and to exploit gearing and multi-tier capital structures.

Individual investors can retain their liquidity through share trading on the secondary market. But this circle can only be squared through the discount, now the Achilles' heel.

Attempts to overcome this disadvantage through regular continuation votes and share buy-backs, or marketing campaigns to private investors, can only have limited benefits. If taken too far they turn investment trusts into quasi open-end funds, with all the latter's disadvantages of short-term horizons and high costs.

*It is not obvious, either, that the current vogue for packing boards of trusts with independent directors will prove productive.*

The sector needs the support of strong fund management groups, but these may decide the quality of the business is declining as management contracts are shuffled at an increasing rate, even though the houses that are currently gaining contracts – such as Invesco – will temporarily benefit.

At the Overseas Investment Trust shareholders are throwing away several percentage points of assets in fees and transaction costs, plus the benefit of a minority stake in the management company (part of Morgan Grenfell).

Moreover, private shareholders are liable to capital gains tax in a way that predators operating through offshore vehicles are not.

There is a case for arguing that a clear majority of all shareholders must approve break-up plans. Certainly, closed-end funds need to find an investor base (if there *is* one out there) prepared to make a clearer long-term commitment.

There are sectors such as venture capital funds where the closed-end format has obvious advantages. The particular current challenge, however, is that most niches on which trusts have focused – such as emerging markets or small companies – are in the doldrums.

In fact, in a global stock market led by megacap blue chips closed-end funds are surely doomed to shrivel, because in such conditions they lack advantages over open-end competitors.

LIFE ASSURANCE ANALYSTS BELIEVE THE SOUTH AFRICAN GROUP IS LOSING MARKET SHARE

# Sanlam earnings decline 31% to R1.18bn

By Victor Mallet in Johannesburg

Sanlam, the South African mutual life assurer planning to demutualise and list on the Johannesburg Stock Exchange this year, yesterday announced a 31 per cent fall in net earnings to R1.18bn ($237m) in 1997 from R1.71bn in 1996.

The group blamed most of the decline on new accounting policies, changes to actuarial valuation assumptions and a higher tax charge. But analysts said it had also been losing market share in recent years to rivals such as Liberty Life. "It's going to be quite a tough sell," said one analyst in Johannesburg of the proposed flotation.

Sanlam acknowledged that it had been hit by a smaller than expected rise in the volume of individual recurring business, by problems at Sanmed, its medical arm, and by lower investment returns from local markets towards the end of the year because of the knock-on effects of the south-east Asian financial crisis.

Sanlam said it invested heavily in information technology to improve its operations and distribution, incurring costs which would lead to higher productivity in future years.

Marinus Daling, executive chairman, described 1997 as a year of "consolidation" and said Sanlam's priorities this year would be to improve service and re-establish Sanlam as a leading brand in financial services to improve profitability.

"There were areas in our business which required our particular attention. Corrective action is being taken and substantial progress has already been made to address the underlying causes." Mr Daling said the demutualisation was "the most exciting development in Sanlam's history" and would enable the group to become a "world-class financial services group".

Premium income increased 18 per cent to R21.97bn from R18.62bn, while total assets under management were R164.98bn, up 10 per cent from the previous year's R150.35bn. Operating profit rose 9.3 per cent to R1.01bn from R921m. Sanlam's free reserves rose 13 per cent to R10.38bn from R9.21bn.

Mr Daling said the accounting changes with regard to earnings meant Sanlam's accounts more closely reflected international standards and were more prudent. Without the changes, net earnings would have fallen 16 per cent to R1.35bn from R1.61bn.

● Old Mutual, Sanlam's larger rival, which is planning to demutualise next year, has appointed Merrill Lynch as its financial adviser. It has chosen Tillinghast-Towers Perrin as its actuarial adviser.

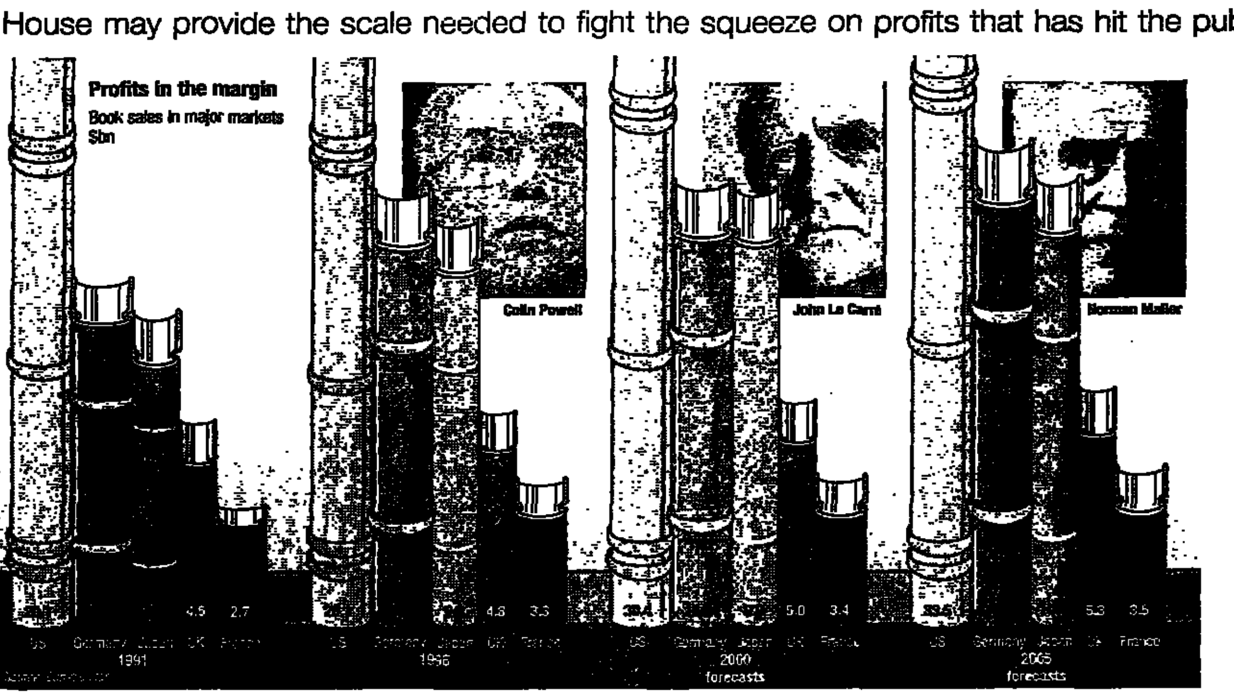
# Bertelsmann purchase set to open a whole new chapter

Acquisition of Random House may provide the scale needed to fight the squeeze on profits that has hit the publishing industry

The New York book publishing business seems to be falling into foreign hands.

The prospect of of one the city's proudest industries passing out of local control would normally prompt cries of indignation from the city's media elite. But, after the battering that non-specialist publishers have taken in recent years, a sense of resignation has settled over literary circles – who knows? The arrival of a German owner may breathe new life into the business.

That has been the early reaction to the surprising news this week that Bertelsmann, the world's third largest media group, was to buy Random House – whose authors include John le Carré, Norman Mailer and Colin Powell – for more than of $1.5bn.




The New York publishing industry had focused its attention elsewhere – on Viacom's plans to sell the educational publishing operations of Simon & Schuster and its Macmillan imprint, or on whether News Corp would dispose of HarperCollins. That Advance Publications, the private company controlled by the Newhouse family, would decide to sell Random House was something nobody expected.

For the publishers of trade books, the least profitable part of the industry, the news is welcome. Caught between the discounts demanded by a new group of powerful retailers on and escalating advances for the best-known authors, publishers have had a miserable time.

"Compared with the rest of the [entertainment] industry, they are the least profitable of the content businesses," says Peter Kreisky, a vice-president at Mercer Management Consulting.

Bertelsmann's purchase of Random House represents two solutions to the chronic squeeze on profits.

First, it will bring the scale both to cut unit costs and drive a harder bargain with both retailers and authors' agents.

When combined with the German .company's own North American book publisher, Bantam Doubleday Dell, the operation will account for an estimated $1.9bn of sales of so-called trade books in the US – the general titles sold through bookstores. That amounts to one-third of trade book sales annually in the US, or 10 per cent of all books sold, according to Subtext, an industry publication.

Peter Olson, head of Bertelsmann's North American publishing operations, says he has already moved to reassure giant book retailers such as Barnes & Noble that amassing a publishing business of this size will not change the balance of power in the industry.

However, the growth of such retailers, and the rapid consolidation that has left only a handful of nationwide wholesalers, are among the factors that have "put pressure on profitability" and prompted the acquisition, he adds.

Other US book publishers hope this will bring a shift in the balance of power and prompt a serious challenge to to their earnings: the ability of retailers to return as many unsold books as they want without penalty.

The Authors' Guild, which represents many American writers, fears that Random House will use its new-found muscle to force through lower advances – something that is already happening, with a number of publishers turning their backs on the giant advances needed to attract the biggest names.

"It's just got to lessen competition in the marketplace," says Paul Aiken, director of the Guild, though Mr Olson contends that maintaining the Random House operations as separate imprints will mean that there is no reduction in competition for authors.

The second advantage of combining Random House with Bertelsmann's publishing business echoes another force at work in the wider entertainment and media worlds: the vertical integration that has brought together content producers and distributors.

It is in the second area where the German company can demonstrate the greatest strength. Its book clubs, now with a reported 48m customers, are a long-standing part of the group and represent a distinct advantage now that less than half of all books are sold through stores.

Under Thomas Middelhoff, the executive who negotiated the deal, Bertelsmann has also invested heavily in online distribution and forged an important partnership with AOL, the largest of the online networks.

By providing a platform for Random House's impressive backlists of authors, this suggests a way out of the unprofitable corner in which the book publishers finds themselves.

*Reports by Richard Waters, Frederick Stüdemann and Alice Rawsthorn*

## NEWS DIGEST

### BANKING

## Israel Discount Bank down 21% as one-offs take toll

Israel Discount Bank, the country's third largest, yesterday said net income fell nearly 21 per cent last year, after one-off expenses incurred from an early retirement programme.

Net income, including one-off items, fell from $71.2m in 1996 to $56.5m in 1997. Excluding one-offs, net income rose 4 per cent over the same period to $76.5m.

The results came amid a labour dispute at IDB which has paralysed the bank for weeks and delayed a further sell-off of shares by the government, which holds a 60 per cent stake. Workers demonstrated outside yesterday's press conference in Tel Aviv to announce the results, forcing the company to cancel the event.

Sanctions have been orchestrated by the bank's workers' committee, which has over the years secured the highest salaries in the sector even though IDB is the least profitable of Israel's biggest banks. Employees are angry with Arye Mientkavich, recently appointed chairman, who has launched a campaign against the committee.

IDB's profitability lags behind other Israeli banks. Return on equity in 1997, excluding one-off charges, was only 6 per cent, less than half that at Bank Hapoalim, the country's biggest.

IDB's shares, which fell 2 per cent to close at Shk4.02 yesterday in Tel Aviv, have risen more than 20 per cent since mid-February, prompting takeover speculation. In the fourth quarter, provisions for doubtful debts climbed 7.5 per cent to $48.3m, dragging net income for the quarter down to $2m.
**Avi Machlis, Jerusalem**

### MITSUBISHI ELECTRIC

## Resignation report hurts shares

Shares in Mitsubishi Electric fell more than 5 per cent yesterday to Y315 after local media reported that the president of the Japanese integrated electronics group had decided to resign. Takashi Kitaoka, president, denied the reports, saying: "I have not decided anything about my future course of action. I have not decided anything. It is not an appropriate time for me to comment."

Since January last year shares in the company have fallen 54 per cent. Last month, Mitsubishi Electric warned it would suffer net losses this year of Y70bn ($537m), compared with a previous forecast of losses of Y10bn. The previous year it posted a net profit of Y8.5bn. The group has been hit by the collapse of the D-Ram market and a slowdown in domestic consumer electronics sales. **Michiyo Nakamoto, Tokyo**

### DENMARK

## Asia crisis to hit FLS unit

FLS Industries, the Danish conglomerate, has warned that the Asian crisis will hit sales and earnings this year at its F.L. Smidth-Fuller Engineering business, which supplies machinery and equipment to cement mills. FLS Industries reported yesterday that turnover increased from DKr19.48bn in 1996 to DKr21.89bn ($3.1bn) last year. Pre-tax profits were DKr1.11bn, up from DKr951m, and net profits rose 15 per cent to DKr753m. The dividend rises from DKr3.2 to DKr4. **Hilary Barnes, Copenhagen**

*Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com*



Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

| ½ hour period ending | Provisional Price for Trading on 25.03.98: Pool purchase price £/MWh | Final Prices for Trading on 23.03.98: Pool purchase price £/MWh | Pool selling price £/MWh | TS use of system price £/MWh |
|---|---|---|---|---|
| 0030 | 18.30 | 19.80 | 19.84 | 1.08 |
| 0100 | 18.30 | 19.60 | 19.84 | 1.08 |
| 0130 | 18.69 | 19.89 | 20.23 | 1.08 |
| 0200 | 18.69 | 19.39 | 20.23 | 1.08 |
| 0230 | 18.30 | 19.80 | 20.23 | 1.08 |
| 0300 | 18.17 | 19.89 | 20.23 | 1.08 |
| 0330 | 18.17 | 19.99 | 20.23 | 1.08 |
| 0400 | 18.17 | 19.99 | 20.23 | 1.08 |
| 0430 | 17.58 | 20.10 | 20.10 | 0.00 |
| 0500 | 18.10 | 12.88 | 12.88 | 0.00 |
| 0530 | 16.03 | 12.50 | 12.50 | 0.00 |
| 0600 | 16.04 | 12.56 | 12.56 | 0.00 |
| 0630 | 18.04 | 12.86 | 12.86 | 0.00 |
| 0700 | 18.07 | 20.39 | 20.63 | 1.08 |
| 0730 | 17.83 | 21.14 | 21.75 | 1.08 |
| 0800 | 22.36 | 21.52 | 21.75 | 1.08 |
| 0830 | 24.37 | 30.75 | 30.56 | 1.08 |
| 0900 | 24.56 | 37.03 | 37.27 | 1.08 |
| 0930 | 24.79 | 62.44 | 62.67 | 1.08 |
| 1000 | 24.82 | 62.44 | 62.67 | 1.08 |
| 1030 | 24.80 | 62.44 | 62.67 | 1.08 |
| 1100 | 24.86 | 40.34 | 40.58 | 1.08 |
| 1130 | 36.84 | 37.03 | 37.27 | 1.08 |
| 1200 | 37.05 | 35.45 | 35.69 | 1.08 |
| 1230 | 36.82 | 35.45 | 35.69 | 1.08 |
| 1300 | 33.99 | 35.45 | 35.69 | 1.08 |
| 1330 | 24.63 | 30.75 | 30.99 | 1.08 |
| 1400 | 24.57 | 40.34 | 40.58 | 1.08 |
| 1430 | 32.00 | 40.34 | 40.58 | 1.08 |
| 1500 | 31.98 | 30.75 | 30.99 | 1.08 |
| 1530 | 24.50 | 30.75 | 30.99 | 1.08 |
| 1600 | 24.56 | 30.75 | 30.99 | 1.08 |
| 1630 | 24.70 | 30.75 | 30.99 | 1.08 |
| 1700 | 33.67 | 30.75 | 30.99 | 1.08 |
| 1730 | 33.83 | 43.73 | 43.97 | 1.08 |
| 1800 | 32.79 | 47.80 | 48.15 | 1.08 |
| 1830 | 17.47 | 50.78 | 51.05 | 1.08 |
| 1900 | 28.57 | 50.76 | 51.03 | 1.08 |
| 1930 | 64.05 | 50.70 | 50.98 | 1.08 |
| 2000 | 63.83 | 43.71 | 43.95 | 1.08 |
| 2030 | 62.83 | 35.25 | 35.49 | 1.08 |
| 2100 | 25.79 | 40.39 | 40.62 | 1.08 |
| 2130 | 25.34 | 28.97 | 29.20 | 1.08 |
| 2200 | 25.23 | 28.97 | 29.20 | 1.08 |
| 2230 | 18.50 | 21.52 | 21.75 | 1.08 |
| 2300 | 16.10 | 20.39 | 20.63 | 1.08 |
| 2330 | 17.48 | 12.93 | 12.53 | 0.00 |
| 2400 | 17.48 | 12.93 | 12.93 | 0.00 |

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IN THE MATTER OF M-I DRILLING FLUIDS (CYPRUS) LIMITED
AND
IN THE MATTER OF THE CYPRUS COMPANIES LAW CAP 113

NOTICE IS HEREBY GIVEN that the creditors of the above-named company which is being voluntarily wound up are required on or before the 24th day of April 1998 to send in their full names, their addresses and descriptions, full particulars of their debts or claims and the names and addresses of their solicitors (if any) to the undersigned Mr Dinos N Papadopoulos, FCA of Coopers & Lybrand, Julia House, 3 Th Dervis Street, PO Box 1612, CY-1591 Nicosia, Cyprus, the liquidator of the said company, and if so required by notice in writing from the said liquidator, to come in and prove their said debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.

Dated this 25th day of March 1998
Dinos N Papadopoulos
Coopers & Lybrand
Liquidator

## CONTRACTS & TENDERS

REPUBLIC OF BULGARIA

NATSIONALNA ELEKTRICHESKA KOMPANIA EAD (NEK), SOFIA,

INVITATION FOR OFFERS FOR THE IMPLEMENTATION OF THE MARITZA EAST 1 POWER PROJECT UNDER PROCEDURES FOR THE EVALUATION, AWARD AND EXECUTION OF PROPOSALS

1. NEK, the National Power Utility of the Republic of Bulgaria publishes this notice in connection with the implementation under a Build, Own, Operate and Transfer (BOOT) financing without government guarantees of a new coal fired power generating facilities with total net capacity of 600 MW (the "Project") in replacement of the existing Maritza East 1 facility.
2. NEK, jointly with the Committee of Energy, has decided to proceed with the implementation of the Project on basis of an unsolicited offer by a private party (the Initiating Party), subject to the evaluation by NEK, in accordance with procedures including the following:
   a) NEK has prepared a summary of the principal terms and conditions of the Initiating Party's proposal, which summary is available from NEK upon the written request of interested parties that NEK, at NEK's sole discretion, shall consider qualifying for the Project.
   b) Parties writing to NEK pursuant to clause 2(a) above shall accompany their request with a description of their organization, previous experience in the development of similar privately financed project and their brief explanation as to why should NEK consider them as a qualifying party for this Project.
   c) Interested parties must submit their proposals accompanied by their respective quotations to NEK, within sixty (60) days from the date of this publication.
   d) NEK, at NEK's sole discretion, shall evaluate all qualifying proposals submitted by interested parties and shall determine which proposal, if any, taken as a whole is most favourable to NEK.
   e) NEK, at NEK's sole discretion, shall determine whether the proposal, if any, selected by NEK pursuant to clause 2(d) above is more favourable to NEK, according to the standard used by NEK for this purpose, than the proposal of the Initiating Party. If NEK shall determine that the proposal of the interested party is more favourable than the proposal of the Initiating Party (such proposal of the interested party the "Competitive Proposal"), then the Initiating Party shall be entitled during a period of 30 days to:
      (i) match the Competitive Proposal and proceed with the implementation of the Project; or
      (ii) withdraw its proposal for the Project whereupon NEK shall at its sole discretion enter into negotiations with the third party submitting the Competitive Proposal for the implementation of the Project on the basis of the terms and conditions of the Competitive Proposal.
3. The summary described in clause 2(a) above may be obtained by the interested party from the office at the address below upon payment of a non-refundable fee of USD100 to NEK's Bank Account No. 110 311 301 1 in BULBANK, SWIFT: BFTBBGSF, 7 Sveta Nedelya Square, 1000 Sofia, Bulgaria.

   "Natsionalna Elektricheska Kompania" EAD
   Address: 5, "Veslets" St., 1040 Sofia, Bulgaria
   Fax: (+359 2) 875826, 872550
   attention: Mr. Plamen Stoimenov
4. NEK shall have no liability whatsoever to any interested party, whether or not submitting a proposal, in connection with the foregoing procedures, its evaluation of any proposal submitted by an interested party or any other act or omission on the part of NEK. NEK shall have no obligation to any interested party to select any proposal submitted by an interested party to qualify as a Competitive Proposal or to justify or provide any basis for any decision or other act taken in connection with the foregoing procedures.
5. Each interested party shall be required to keep confidential the summary described in clause 2(a) above and any other information received by such interested party from NEK in accordance with the foregoing procedures.

# Pirelli set to streamline control chain

By Paul Betts in Milan

Pirelli, the Italian tyre and cables group, yesterday announced a significant streamlining and modernisation of its complex structure as it reported a 17.4 per cent rise in 1997 consolidated net profits to L512bn ($284m).

The simplification of the company's chain of controlling holding companies involved an agreement with Martin Ebner, the Swiss financier, ending months of speculation over his possibly hostile intentions towards the Italian company.

Marco Tronchetti Provera, Pirelli's chairman and leading shareholder, said the streamlining would eliminate three components of the chain of control and was designed to create greater value for shareholders.

Under the simplified structure, the Pirelli & Co holding controlled by Mr Tronchetti Provera and other allies will directly own more than 30 per cent of Pirelli SpA, the Milan-based company which controls the Italian group's operational activities.

Mr Ebner's BZ Group Holding Limited will own a 10 per cent stake in Pirelli SpA, although he has agreed to grant Mr Tronchetti Provera the voting rights on 5 per cent of his stake. Mr Provera also has a call option to acquire 5 per cent of Mr Ebner's holding in five years.

After a disastrous bid to acquire Continental of Germany eight years ago, Pirelli has undergone successful restructuring under Mr Tronchetti Provera.

The latest operation will involve the acquisition by Pirelli & Co of the Swiss holding Société Internationale Pirelli in a L1,200bn transaction, the subsequent integration of the Swiss holding into another Luxembourg-based Pirelli holding, and ultimately their integration into Pirelli SpA.

To finance the operation, Pirelli & Co will raise L500bn from a one-for-three rights issue and a further L300bn from a convertible bond issue.

Mr Tronchetti Provera said he was pleased with the company's financial performance last year and said the group was expected to perform positively again this year.

The 17.4 per cent rise to L512bn in consolidated net profits reflected a reduction in financial expenses as well as a sharp fall in extraordinary expenses, which in 1996 had been hit by Pirelli's extensive restructuring costs in its US tyre operations.

Group sales rose 10 per cent to L11,265bn last year with tyres accounting for 48 per cent and cables and systems, 52 per cent. Operating profits rose to L760bn from L680bn the previous year.

# Caisse savings network income advances 10.4%

By Andrew Jack in Paris

The French Caisse d'Epargne savings network yesterday reported net income for 1997 up 10.4 per cent to FFr2.02bn ($330m), while launching a vigorous defence of its continued low level of return on equity of just 3 per cent.

René Barberye, chairman, said a decision was shortly expected by a government committee on changes to the legal statutes of the Caisse, and reiterated his support for a reform which could turn the institution into a co-operative before the end of this year.

His comments came at a time of continued criticism of the Caisse d'Epargne by France's commercial banks, which have accused it of benefiting from competitive advantages and cut-throat interest rates.

However, Mr Barberye denied that the Caisse was among the most aggressive price-cutters in the French market, and made a number of favourable comparisons of performance with that of his competitors.

He said between 1993 and 1997, the Caisse's return on shareholders' funds – which stands at FFr65.7bn – before general provisions averaged 4.6 per cent, against an average across the banking sector of 5 per cent.

Mr Barberye added that the Caisse's ratio of costs to income after taking account of risk cover – which rose from 81 per cent in 1996 to 81.1 per cent last year – compared favourably with its competitors including BNP at 84.9 per cent and CIC at 89.8 per cent.

Mr Barberye said his objective was to cut the operating ratio to 70-75 per cent, but refused to provide a target figure for return on equity.

He said the reform of the Caisse's statutes should help provide a new impetus to improve efficiency and boost returns.

He said that plans for a formal "social dividend" paid out by the Caisse – with a target of 10 per cent of profits to be spent on community and other social causes – had been held up by the debate on the reform of statutes.

The Caisse made a supplementary provision of FFr1.7bn to cover possible heavy future costs for its staff pension fund, which it estimates will not be in deficit until 2015.

It said of its 28m accounts – representing the number of individuals holding the Livret A government-backed tax-free savings scheme – there were some 6m clients with current accounts and bank cards.



# Continental chairman follows cost-cutting route to recovery

German tyre group is reaping the rewards of its tough programme, **writes Graham Bowley**

Being number four in a cut-throat industry where the top three companies are twice as big does not concern Hubertus von Grünberg, chairman of Continental, the German tyre manufacturer.

He insists his radical action to cut jobs in western Europe and shift production to cheaper sites abroad has put Conti on a much firmer footing than when he took over in 1991. Then the tyremaker was, as he puts it, "bleeding like a stuck pig".

"The increase in profitability has nothing to do with price: price in 1997 was on average lower than in 1996, so the jump in profitability is due to cost, cost, cost, and there is more of that to come," he says.

The cost-cutting has achieved a remarkable turnround. First, the car tyre division and the US subsidiary, General Tire, returned to profitability. Last week, Conti revealed a 67 per cent rise in 1997 net income to DM322m ($176m).

Now, the truck tyre division, long an albatross around Mr von Grünberg's neck, has returned to profit in the first quarter of 1998. Conti is also attacking costs in its own dealer organisations, where several distributors are operating at a loss.

His approach appears to have worked. John Lawson, automotive analyst at Salomon Smith Barney in London, says: "Continental's relentless targeting of higher returns is refreshing in an industry that has a dreary record with investors."

Mr von Grünberg has steered Conti away from depending solely on tyres into new areas with higher profit margins. He has invested heavily in new technology and in 1994 founded the vehicle systems group, taking Conti into head-on competition with more established automotive suppliers such as Bosch.

In alliance with Siemens, the German electronics and electrical engineering company, and Brembo of Italy, the group has come up with a new electromechanical brake system called ISAD, which has won high praise.

Conti was one of the first to move into eastern Europe, and its site in the Czech Republic produces more Conti car tyres than any of its other plants. Its decision, announced this week, to move into Russia is the next step in this globalisation.

The move is in part a reflection of Conti's need to follow its customers – the big carmakers – as they push into new, fast-growing markets. It is following German company Linde, one of its biggest European customers, to China, and is considering strengthening its position in India.

Such a strategy is especially important as, unlike many of its rivals, Conti's business is confined mostly to the relatively mature economies of western Europe, with only a small exposure to fast-growing emerging markets.

The globalisation is being made possible by a new process being developed by Continental called a modular manufacturing process (MMP). Mr von Grünberg likens the process to the platform strategy pursued by carmakers such as Volkswagen: basic tyre parts (modules) are manufactured in low-cost locations and shipped to markets where they are sold for assembly according to customers' requirements. Conti is building a MMP plant in Brazil and the Russian factory will also use MMP.

Eventually, Mr von Grünberg wants to produce between 5m and 10m tyres a year using the modular process. The advantage, he insists, is that an MMP factory costs about six times less than a conventional plant. Rivals such as Goodyear of the US and Michelin of France are also developing their own low-cost production methods.

"We have very low capital entry barriers into a new country. It allows us very low-cost globalisation," he says.

It is cost advantage, as well as technological innovation, that Mr von Grünberg asserts will secure Continental's future in the severely competitive tyre industry. Samir Gibara, Goodyear chief executive, has said he wants to double his company's size, triggering speculation about consolidation in the $70bn a year industry.

But Mr von Grünberg insists that Continental is in a good position to survive, even with only about 7 per cent market share. Goodyear, Michelin and Bridgestone of Japan each control about 20 per cent.

"I am cautious about wars because my goal is not share and size but profitability. If growth cannot be profitable than I would rather not have it," he says.

But he adds: "Given our position as number four, it would be inadequate to give up market share. I think we will hang on and have all the means in terms of technical leadership and cost base to to defend ourselves and hang on profitably."

Hubertus von Grünberg: goal is profitability, not size

**AIRLINES** LOW-COST CARRIER SAYS HIGH COSTS AND INTERFERENCE FROM GOVERNMENT AND UNIONS MAY FORCE IT TO RELOCATE HEADQUARTERS

# Virgin Express may move from Belgium

By Michael Skapinker in Brussels

Virgin Express, the Brussels-based low-cost airline, is considering moving to the UK or Ireland to escape Belgium's high labour costs and what it sees as excessive government and union interference.

Jonathan Ornstein, the airline's chief executive, said operating in Belgium was "extremely difficult, if not impossible, in the long term". He said in an interview that the liberalisation of the European Union aviation market meant the company could move its headquarters to the British Isles and register the employment of its staff there, while still continuing to fly between continental European cities.

Virgin Express, which is 51 per cent owned by Richard Branson's Virgin group, is now Belgium's second largest scheduled airline after Sabena. It has operated from Brussels since acquiring Eurobelgian Airlines, a charter operator, in 1996.

Virgin Express, which was listed on the Brussels stock exchange and on Nasdaq in the US last year, operates scheduled and charter services in continental Europe and flies between London and Brussels under a code-sharing arrangement with Sabena. Code-sharing means airlines sell seats on each other's flights.

Mr Ornstein said social costs in Belgium represented 37 per cent of employees' salaries, compared with 8 per cent or 9 per cent in the UK and Ireland. He said the airline had created 600 jobs in Belgium but was subject to repeated interference from government inspectors. He said: "Half of those 600 were previously unemployed. You'd think the government would pin medals on our chest." Instead, he said: "We get zero help from the government."

Mr Ornstein was also critical of the country's unions, which he said had provoked a recent one-day strike by Virgin Express's Belgian pilots. "The unions told us point blank that there's no future for low-cost airlines in Belgium. We're trying to decide whether we agree with them."

Mr Ornstein, who was previously a senior executive with Continental Airlines in the US, said his first priority was to persuade the Belgian government to recognise the problem and put Virgin Express "on a level playing field" with Irish and UK competitors such as Ryanair and EasyJet. He said if this were not done, the airline would have to move.

Mr Ornstein said he would follow plans laid out by Stelios Haji-Ioannou, EasyJet's chairman, who is considering establishing a new hub in Amsterdam to complement his existing base at Luton airport near London.

# Deutsche Post to buy DHL stake

By Ralph Atkins in Bonn

Deutsche Post, Europe's largest postal service, is expected to announce today that it is taking a 22.5 per cent stake in DHL International, the international express courier service.

The move marks a significant expansion in the international activities of Deutsche Post, which is being prepared for a stock market listing in 2000.

But it will trigger fresh accusations from international competitors that Deutsche Post's protected monopoly in the German letters market is allowing it to compete unfairly in the commercial express deliveries sector.

The DHL deal, to be unveiled in Frankfurt by Klaus Zumwinkel, Deutsche Post chairman, follows the A$2bn (US$1.3bn) purchase in 1996 of TNT, the Australian parcels group, by KPN, the privatised Dutch posts and telecommunications utility.

A purchase price for Deutsche Post's DHL stake is not expected to be disclosed but the express service has a turnover of about $4bn.

Other shareholders in DHL International include Lufthansa and Japan Airlines, which each have a 25 per cent stake, and Nissho Iwai, the Japanese trading company. DHL, one of the world's largest express services, has offices in 227 countries and 53,000 employees.

So far, Deutsche Post's activities outside Germany have been restricted largely to holdings in parcel services in Poland, Belgium and Switzerland. But it has already begun a wide-ranging overhaul of its operations. Last week, it bought the 317-branch McPaper chain of German stationery shops.

Germany's new post law grants Deutsche Post a monopoly until the end of 2002 for handling standard letters up to 200g and bulk post, or "junk mail", up to 50g. Last year, its operating profits rose by more than 25 per cent to DM700m and turnover 1.6 per cent to DM27.1bn.

# Magna wins Sch4bn battle for Steyr

By Eric Frey in Vienna

Creditanstalt, the Austrian bank, yesterday ended the tussle over Austrian vehicle maker Steyr-Daimler-Puch when it agreed to sell majority control to Canada's Magna International for Sch4bn ($310m) cash.

The decision by the bank's supervisory board came after Magna raised its bid from Sch3.54bn and cancelled the two-thirds equity portion to match a rival offer by Hannes Androsch, former Austrian finance minister, and stop other groups from making bids.

"[Magna's bid] was the highest and best offer," said Erich Hampel, Creditanstalt chairman. The last-minute increase in the bid came because of better than expected results for 1997, he added.

Creditanstalt had signed in January a preliminary agreement with Frank Stronach, the Austrian-Canadian entrepreneur who is Magna chairman, to sell him 67 per cent of Steyr and its 50 per cent stake in Steyr Fahrzeugtechnik (SFT). But two weeks ago, the bank delayed the vote on the Steyr sale to give other prospective bidders a chance to make rival offers.

When Creditanstalt's board met again yesterday, only a group led by Mr Androsch had put a firm offer of more than Sch3.85bn on the table, but it had also demanded more time to study Steyr's books. The US automotive groups Borg Warner and Dana, and the German investor group GSM only expressed interest in Steyr, and Mr Stronach had warned he would withdraw the offer if Creditanstalt delayed the decision again.

Frank Stronach (left) celebrates another win Picture AP

The prospect of a takeover battle had pushed up the Steyr share price by 30 per cent over the past two weeks to a close of Sch483 on Monday. The shares were suspended yesterday.

Analysts and investors were yesterday disappointed by the terms of the sale. Magna's new offer values Creditanstalt's Steyr stake at Sch2.2bn, or Sch335 a share, which is lower than the original offer of about Sch380 a share. Instead, Magna raised the price of the 50 per cent stake in SFT from Sch1.1bn to Sch1.8bn. The remaining half of that company, which runs the profitable assembly joint venture with US carmaker Chrysler in Graz, is held by Steyr.

Traders are expecting Steyr shares to fall sharply when trading resumes today. According to some analysts, Creditanstalt's stake in the group is worth at least Sch5bn.

# Seat returns a healthy profit

By David White in Madrid

Seat, the Spanish carmaker that became a problem for its parent the Volkswagen group, has confirmed its recovery with net profits of Pta11.05bn ($71.3m) last year, higher than forecast and more than double the previous year's Pta5.34bn.

The company, bought by VW 12 years ago, made losses for four consecutive years before returning to the black in 1996, thanks in part to a Spanish government aid package and support from its German parent.

Pierre-Alain De Schmedt, the company's Belgian chairman, said Seat had fulfilled its objectives, including a profit at operating level, a substantial reduction in debt and a restructuring of its balance-sheet.

Operating profit was Pta14.55bn, compared with a loss in 1996 of Pta13.85bn.

Mr De Schmedt confirmed that the Barcelona-based company had achieved record output, with a total of 467,300 Seat and VW cars, a 12.5 per cent rise on the previous year. The company has set a production target of 494,000 this year.

World sales of Seat vehicles, 68 per cent of which were exported, exceeded 400,000 for the first time, reaching 402,700, a 17 per cent increase.

Turnover rose by more than 27 per cent to Pta774bn, after growing by a third the previous year.

In Spain, Seat moved from fourth to second, with sales of 130,300 units, a growth of 23 per cent and the highest level since 1978. Its Ibiza small car was Spain's biggest-selling model.

Mr De Schmedt added that in February the company had pipped the Renault group to take top place with a Spanish market share of 13.7 per cent.

He said it would take on 1,000 employees on a permanent or temporary basis – its workforce has been almost halved over the Last five years to 12,800.

# Audi climbs 29% to DM1.11bn

By Graham Bowley in Frankfurt

Audi, the executive cars subsidiary of Germany's Volkswagen, increased pre-tax profits by 29 per cent to a record DM1.11bn ($605m) last year, underlining its position as one of Europe's most successful car companies.

The sharp rise reflects higher output and the inroads the group is making into the luxury car market.

Franz-Josef Paefgen, chief executive, said strong demand for Audi's top-of-the-range models was the main driving force behind a 19 per cent increase in sales to DM22.4bn.

He said a further increase in profits and sales was possible again this year, with the strongest growth expected in western Europe and North America.

"In the medium-term there is also growth potential in South America and south-east Asia despite the difficult economic situation," he added.

Audi's success, which has been helped by an expanded model range, confirms the carmaker as a rival to bigger the German luxury carmakers, BMW and Mercedes-Benz.

Audi has already predicted it could raise output by up to 10 per cent this year to about 600,000 vehicles. It said yesterday that deliveries in first quarter of this year totalled 144,200 units, 5 per cent more than in the same quarter last year.

However, Audi has warned that growth this year could be limited by capacity constraints at its two German plants and investment in new models and capacity. Mr Paefgen said yesterday Audi would spend about DM11bn on new investment between 1998 and 2002.

Deliveries of cars worldwide grew 11 per cent last year to more than 546,000 units, Audi said. Its flagship A8 saloon enjoyed strong demand. More than 15,100 Audi A8 models were delivered to customers last year, 38 per cent more than in 1996. Deliveries of the A6 rose 1.9 per cent to more than 115,500 units.

"1997 was a very good year for Audi, the most successful in the history of our company," Mr Paefgen said. He said growth this year would be boosted by the new A6 Avant and Audi S4.

Deliveries in western Europe excluding Germany increased 12.2 per cent last year to about 223,300 units. In the US, where Audi is trying to achieve the sales it had in the 1980s, deliveries rose 25 per cent to about 34,000 units.

# Saxony plans banking shake-up

By Andrew Fisher in Frankfurt

A further move in the restructuring of Germany's complex banking system was signalled yesterday with a plan by the east German state of Saxony to combine its main public sector bank and local savings banks under one organisation.

The plan would further erode the differences between savings banks, which serve private and business customers via local branches, and Landesbanks (regional public sector banks), which provide wholesale financial and investment services for state governments and the savings banks.

The Saxon initiative to create SachsenBank Holding, with assets of about DM120bn ($65.6bn), also shows the extent to which cost and competitive pressures are causing private and public sector banks in Germany to consider merging or reshaping their operations.

In January, a three-way merger of public sector banks in south-west Germany, including a savings bank, was announced to create Stuttgart-based Landesbank Baden-Württemberg with total assets of DM430bn. The search by Landesbank Hessen-Thüringen (Helaba), Frankfurt, for a possible partner also signals a further shift in public sector banking.

Berliner Bankgesellschaft, comprising private and public sector banking activities, has agreed to merge with Hanover-based Norddeutsche Landesbank. In the private sector, two Bavarian banks are combining to form Bayerische Hypo- und Vereinsbank as Germany's second biggest bank.

The move to create a new banking group in Saxony, the only east German state with its own Landesbank, Leipzig-based Landesbank Sachsen, is at the initiative of Georg Milbradt, finance minister.

The new organisation may also include Sächsische Aufbaubank, an industrial promotion bank. The savings banks would keep their retail operations but draw financial strength from being part of belonging to a larger organisation handling capital market, investment, strategic and administrative activities.

Mr Milbradt's plan has yet to be discussed by the banks and the local authorities, some with acute financial problems, which would share ownership of the new bank with the state of Saxony and be entitled to dividends of more than DM300m.

The finance ministry is being advised by J.P. Morgan, the US investment bank, and Consart, a Frankfurt-based consultancy.

# SA Breweries set to unbundle non-core assets

By Victor Mallet in Johannesburg

South African Breweries, the world's fourth largest brewer, looks set to become the latest South African conglomerate to start selling or unbundling to shareholders peripheral subsidiaries following a series of announcements on the Johannesburg Stock Exchange yesterday.

SAB has been saying for two years that it wants to focus on its core beer and beverage interests, and last year it sold OK Bazaars, the struggling downmarket retailer, to Shoprite, the retailing group.

Associated Furniture said SAB had agreed to sell its 64.1 per cent stake in the company for R329m ($66m) to financial institutions. At the same time, Pat Cornick, a rival furniture company, is offering to merge with Afcol.

Lion Match, Conshu Holdings (a footwear and clothing company) and Da Gama Textile – all SAB-controlled companies – announced that SAB was considering proposals regarding its holdings, and warned shareholders to exercise caution in their dealings.

Like other large South African groups, SAB found it difficult to expand overseas in the era of apartheid because of economic sanctions and hostility towards South Africa among foreign consumers. Instead, such companies used surplus cash to buy businesses in the domestic market that were often unrelated to their core activities.

Since the country's first democratic election in 1994, South African groups have been able to diversify overseas. SAB has been an energetic investor in emerging markets, buying brewing interests in Africa, Asia and eastern Europe. Last month, it said it was considering a big investment in Russia after its moves into Hungary and Poland.

The pace of South African corporate restructuring has quickened as the country's big groups seek to establish themselves in international markets. Both Anglo American and Gencor have moved their gold mines into focused gold companies, and there has been a wave of consolidation in the financial services industry. Big companies are also preparing themselves for stiffer competition regulations being prepared by the government for the domestic market.

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NEWS DIGEST

**BANKING**

## La Générale backs plan for link-up by subsidiaries

Société Générale de Belgique, Belgium's biggest holding company, yesterday backed the idea of a banking link-up between two of its subsidiaries, Fortis and Générale de Banque, but said it planned to maintain its shareholdings in both groups.

Viscount Etienne Davignon, chairman, indicated that the holding company supported the idea of an alliance between its two financial services interests in Belgium – provided the talks under way between the two concluded that this was in the best interests of shareholders. He warned, however, that whether or not talks with Fortis were successful, a standalone policy for Belgium's biggest bank was no longer an option, given the consolidation under way in the European banking market ahead of the arrival of monetary union next year. Both La Générale's biggest rivals in the Belgian market are becoming part of larger groups.

The chairman's comments came as La Générale reported a 41 per cent jump in net profits for 1997 from BFr11.09bn to BFr15.6bn ($413m). The improvement reflected the full consolidation of Tractebel, the energy and engineering group of which it owns 50.3 per cent, as well as profit increases from all its businesses. An increase in the gross dividend of BFr4 per share to BFr120 is proposed. **Neil Buckley, Brussels**

**LEISURE INDUSTRIES**

## Kuoni advances 39%

Kuoni, one of Europe's leading tour operators, increased its net income by 39 per cent to SFr96.2m ($64.47m) in 1997. Sales rose by 19.8 per cent to SFr4.2bn, and Max Katz, the chief financial officer, said sales rose by 11 per cent after adjusting for currency changes and other factors. Group earnings before interest and depreciation rose by 44 per cent to SFr111m. The UK, where it is the biggest long haul tour operator, remains the group's biggest contributor with pre-interest profits rising by 21.5 per cent to SFr65.6m, followed by Switzerland where profits rose by 61 per cent to SFr41.3m. It has raised its dividend by 43 per cent to SFr100 per share. **William Hall, Zurich**

**INSURANCE**

## INA to quit property

INA, Italy's second largest insurance group, last night set out plans to gradually relinquish its involvement in property operations by setting up what it says will become the largest single property company in Europe.

At a board meeting last night, INA announced plans to transfer property with a total value of between L4,500bn and L4,750bn ($2.5bn-$2.6bn) to Unione Immobiliare SpA, a company which is currently 100 per cent under its control and which already operates in the field of property management.

By the end of this year, Unione Immobiliare plans to be quoted on the Milan stock exchange. Once this has happened, the INA holding company plans to sell off its remaining holding in Union Immobiliare by the middle of next year. INA said last night that its initial presence in Unione Immobiliare would allow it stabilise the newly enlarged company's share price. At the same time, it would help with the formation of a stable core of shareholders who will provide new management for the company at the start of the next century. **James Blitz, Rome**

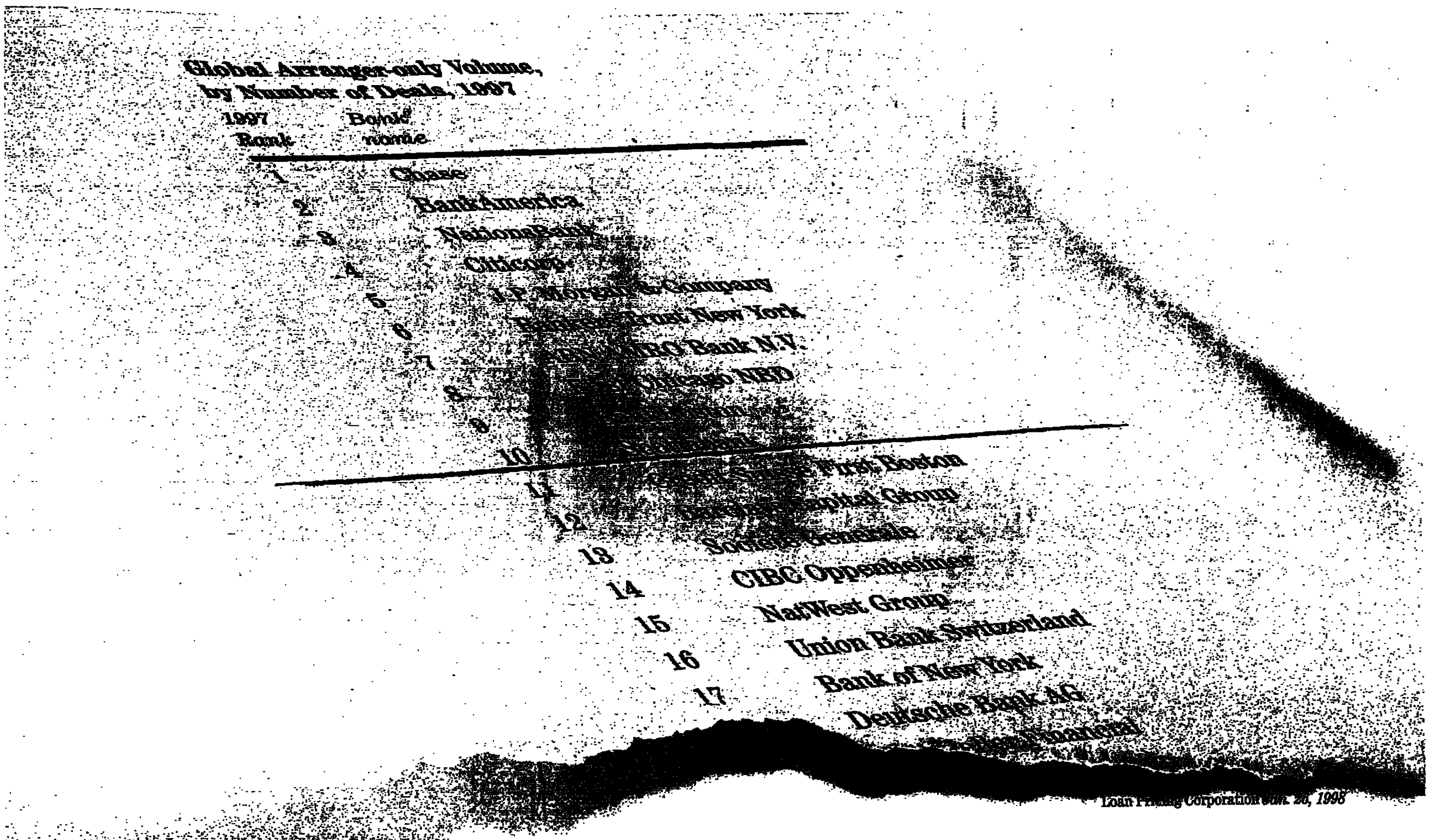
**AERO-ENGINES**

## Snecma back in the black

An upturn in the civil aeronautics market has helped Snecma, the French state-controlled aero-engine maker, back into the black. The company yesterday reported a net consolidated profit for 1997 of FFr750m ($122m), compared with a loss of FFr280m in 1996. Sales climbed 23 per cent from FFr18.7bn to FFr23.1bn. The group said exports accounted for 69 per cent of turnover, of which 77 per cent came from the civil sector.

It said its increased sales, "after several years of crisis", illustrated the cyclical nature of the aeronautics business. It had started to develop its service activities to reduce the impact of a reduction in sales of new engines during the next cyclical downturn. **David Owen, Paris**

*Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com*

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# Apple Computer on an upward swing

The PC pioneer's chances of survival are improving, for which co-founder Steve Jobs takes the credit

By Louise Kehoe in San Francisco

Apple Computer is defying gravity. Just nine months ago, the pioneer of the personal computer industry was in a downward spiral with mounting losses and dwindling market share. Now it seems to be on an upward swing as new products and a bold marketing campaign renew its momentum.

It is far too soon for talk of a recovery. Yet Apple no longer appears to be a lost cause. The company returned a modest profit in the first fiscal quarter, to the end of December, and Wall Street analysts are projecting earnings of about $1 a share for the full year.

This would be less than one-third of 1995 earnings, when revenues peaked at $11bn. Sales for fiscal 1998, ending in September, are expected to continue to decline to just over $6bn. Nonetheless, after two years of heavy losses this would be a remarkable improvement.

Investors' enthusiasm is evident. Apple's shares have risen from just over $13 in early January to a high of $27¼ last week. Yesterday, the stock was trading at $26¾ in mid session. Apple Macintosh enthusiasts also have something to cheer about. The latest "G3" versions of the "Mac" are faster and less expensive than equivalent Windows PCs.

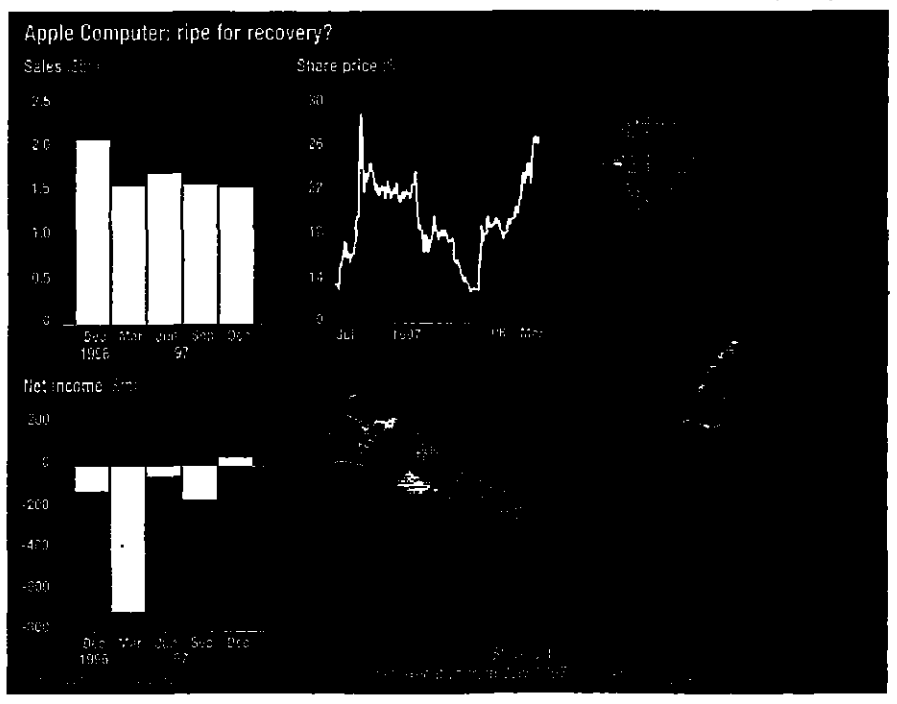
Inside Apple's Silicon Valley headquarters the mood is upbeat. After thousands of lay-offs over the past two years, enthusiasm is growing as Apple's chances of survival improve.

Credit for Apple's revival goes to Steve Jobs, the charismatic but controversial co-founder who rejoined Apple last year after a 12-year absence and took over the helm after Gil Amelio, former chairman and chief executive, was ousted.

Renowned for his powers of persuasion, but not – until now – for his management talents, Mr Jobs has at the very least "bought time" for Apple.

He has brought focus and direction to the company, says Tim Bajarin, president of Creative Strategies, a Silicon Valley consulting group. "I give him high marks for recognising that Apple cannot be everything to everybody. It must focus on the market segments where it is strong, such as publishing."

Within Apple, he has created a passion for saving the company reminiscent of the fervour that surrounded the launch of the Macintosh in the early 1980s. With a series of eye-catching advertisements in which Apple "toasts" one of Intel's bunny dancers, Apple has also drawn the public into its fight for survival.




Mr Jobs has made some tough decisions, cutting products and projects that are not central to Apple's operations. Last month, he shut down the Newton division, which developed handheld computing devices. "To realise our ambitious plans we must focus all of our efforts in one direction," he said. To streamline distribution, he struck a deal with CompUSA, one of the largest computer store chains to create "store within a store" environments that sell only Macintosh-related products. He also cut back to just two national distributors.

These moves have cut costs and should help Apple to show continued improvement in its financial performance. Mr Jobs is also hoping for a boost in sales later this year, when the company plans to launch a low-cost home computer.

"Apple has not had a great consumer product over the last few years," Mr Jobs acknowledged at an industry conference this month. "You're going to see that change this fall." The products are expected to be stripped-down versions of the Macintosh that compete with "sub-$1000" Windows PCs.

Still, Apple faces serious challenges. Its sales are largely to existing Macintosh users; loyalists who have stuck with Apple despite its decline. Drawing new users to Macintosh technology will be more difficult. Competing in the increasingly price-sensitive consumer segment of the PC market will also be tough because Apple lacks the economies of scale of the Windows PC industry.

However, the most pressing issue for Apple is Mr Jobs' own role at the company. He has been "interim chief executive" since November while the company searched for a replacement. Yet Mr Jobs has shown no signs of giving up his post.

Yesterday, as Apple's board met, the issue of whether Mr Jobs would take on a more permanent role was high on the agenda: he is reported to have been offered up to 5 per cent of Apple's stock if he stays.

However, Apple's board is unlikely to force Mr Jobs to reach a decision. The last thing it needs is the sudden departure of another chief executive.

# US banks 'could absorb' Asia loss

By John Authers in New York

The Asian financial crisis will cause loss rates for US international banks to rise, and their earnings will be hit by both worse credit losses and declines in revenue, according to the latest report on the situation by Standard & Poor's, the New York-based rating agency.

However, the agency made clear it did not think the crisis would have any impact on banks' credit quality, and their excess reserves would exceed expected losses.

Providing the problems in Asia do not spread beyond the countries currently receiving aid from the International Monetary Fund, the banks' earning capacity will remain strong enough to "absorb expected Asian losses by several multiples".

Investors in the US have already voiced concern over the impact of the crisis on the revenues of money centre banks, which include Citicorp, Chase Manhattan, BankAmerica, J.P. Morgan and Bankers Trust. These banks derived between 8 and 22 per cent of their net income from the region. But S&P said: "Credit costs could affect earnings more than revenue declines."

It predicted that the loss rate from Korea, Indonesia, Thailand and Malaysia, the four Asian countries in receipt of aid from the IMF, could reach 15 per cent of their total exposure.

S&P said the picture for money centre banks would "get worse before it gets better". It expected the ratio of non-performing assets to commercial loans would climb by 0.5 to 1.5 percentage points, to a maximum of 2.5 per cent for Citicorp, the most exposed bank.

# Searle, Pfizer to expand drug deal

By Nikki Tait in Chicago

Searle, the US drug company which is owned by St Louis-based Monsanto, and Pfizer, another big pharmaceuticals group, have agreed to expand their development and marketing agreement for Searle's celecoxib arthritis drug to cover all areas of the world, except Japan.

About a month ago, Searle announced it was selling its right to help develop and market the drug to Pfizer – a move which was seen as giving the product a better chance of competing against a rival drug being developed by Merck, because of Pfizer's large sales force.

Under the original deal, Pfizer was to pay Searle $85m, but this will now be increased to $100m. Searle said additional development and milestone payments were also expected. The Chicago-based company already has an agreement with Yamanouchi Pharmaceutical for development and marketing in Japan. The Searle product is currently in final clinical trials in the US.

# Hilton chief seeks more room at top

After two takeovers failed, Bollenbach needs an alternative, writes **Richard Tomkins**

What now for Stephen Bollenbach, the 55-year-old chief executive of Hilton Hotels?

Two years ago, the former chief financial officer of Walt Disney arrived at Hilton with a mission to shake up the sleepy company and give it some direction.

He wasted little time. A few months later, he pipped the rival ITT leisure group in a long-running tussle for ownership of the Bally Entertainment casino group, paying $3bn.

Then, by the end of his first year, he had launched a hostile bid for ITT itself.

But since then, Mr Bollenbach has been experiencing the bitter taste of defeat.

ITT eventually escaped Mr Bollenbach's grasp, agreeing instead to a takeover by Starwood Hotels & Resorts Trust.

And on Monday, Hilton announced that merger talks with a potential consolation prize – Circus Circus Enterprises, a big casino company – had collapsed.

Meanwhile, the underlying business has proved something of a disappointment.

Although Hilton's hotel operations have benefited from strong demand, a poor performance from the casino operations obliged the company to put out a profit warning in last year's fourth quarter.

Mr Bollenbach is the first person from outside the Hilton family to take the chief executive's job. He was brought in by Barron Hilton, the founder's son, who still holds 25 per cent of the shares and remains chairman.

Barron Hilton had previously tried to sell the company at least twice, but he could not get a high enough price. In 1995, he came within a whisker of agreeing to break up the company by spinning off its gambling operations, only to back away from the plan and bring in Mr Bollenbach instead.

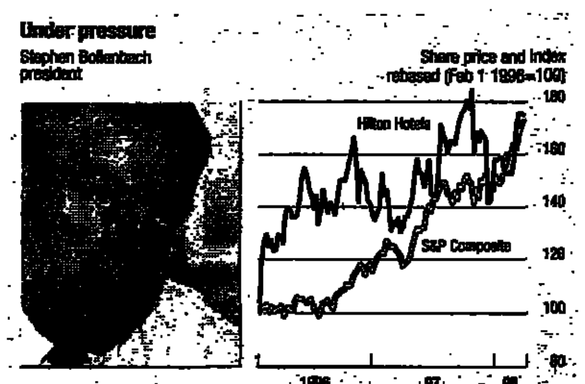
Three years later, history seems to have turned full circle: for as part of the deal with Circus Circus, Mr Bollenbach had also been planning to break up the company, spinning off its casino business and merging it with Circus Circus's.

Now that plan has folded, Mr Bollenbach is under pressure to come with an alternative. Several options are believed to be under consideration, some of which could be adopted in combination with one another.

A break-up of the company still looks a probability, if only because it formed a central part of the planned merger with Circus Circus. The plan could still go ahead with a different casino company as partner, or without a partner at all.

Potential candidates for a merger could include small companies such as Astar or Rio Hotel & Casino, or larger ones such as MGM Grand. A merger with ITT's Caesar's Palace casino operations would also be attractive if Starwood wanted to divest them and the two could agree on a price.

Another possible merger partner is Ladbroke, the UK hotel, betting and casino company that owns the rights to the Hilton name in markets outside the US. The two have spoken often, and in 1996 they formed a marketing alliance.




However, Ladbroke's shareholders are thought unlikely to sell their company for Hilton paper because Hilton stock is not traded in London, and a cash deal would probably be too costly.

And if the two were ever going to do a deal, they have had ample opportunity to do it before now.

"It's still a possibility, but I don't think it's a front-burner as people are portraying it," says one Hilton observer.

Hilton has also been seen as ripe for conversion into a real estate investment trust, or Reit, to give it the same advantages that Starwood enjoyed when outbidding Hilton for ITT.

A merger with an existing Reit could achieve this objective.

Reits, which pay no corporate taxes, are hot stocks on Wall Street right now, and in the battle for acquisitions, their high share prices enable them to outbid conventional companies such as Hilton.

However, the tax advantages of Reits are now under scrutiny by Congress, and Mr Bollenbach launched such a severe attack on Reits during the bid battle for ITT that he has seen as having effectively closed that door.

Hilton's advisers say Mr Bollenbach will not be rushed into a deal just for the sake of doing one.

"It's a very fluid situation and he's analysing a lot of different options," says one person close to the company.

"He always looks at so many thing from so many angles. It tends not to be sequential, where there's one idea that falls apart and then he goes on to the next idea."

Still, in spite of Hilton's insistence that Mr Bollenbach is not under pressure, he stands to reap rich rewards if he does a deal soon.

Under the terms of the employment contract drawn up when he joined Hilton, he has the right to exercise certain share options if Hilton's hotel and gambling operations are demerged by June 30 this year.

These are currently worth nearly $90m.

## NEWS DIGEST

### OILFIELD SERVICES

## Schlumberger in alliance with Russia's Yuksi

Yukos, Russia's largest oil company, yesterday signed a strategic alliance with Schlumberger of the US aimed at outsourcing a slice of its $2bn-a-year oilfield services costs to a new joint venture company.

The new alliance will take on services at an unspecified number of Yukos's existing oil fields in Russia, and Yukos claimed it would also compete for business from other Russian oil companies.

Eugene Schvidler, chief financial officer at Yukos, said: "We want to create a market for oil services in Russia. All Russian oil companies have in-house services for everything from drilling to research to kindergartens. We will be a big client for this business ourselves, but nothing precludes us from doing this for other oil companies."

Mr Schvidler would not comment on the potential cost savings that could be achieved from the alliance, but since the creation of Yukos, management have been anxious to demonstrate their commitment to improving efficiency. Yukos said on Monday it is selling a 5 per cent stake to Elf Aquitaine of France, in order to bring in capital and technical expertise for developing its vast oil reserves.

Mr Euan Baird, Schlumberger's chairman and chief executive, said: "Russia provides an outstanding opportunity and challenge for Schlumberger". Several competitors in oilfield services have agreed outsourcing deals with Russia's largest oil companies in the past, but none have yet been successful.
**Simon Davies, Moscow**

### TELECOMS

## Telus in talks with AT&T unit

Telus, the Canadian telecommunications company, has confirmed it is in negotiations with AT&T Canada Long Distance Services that "could lead to a possible business combination". Telus confirmed the talks following reports that it was in negotiations to buy two-thirds of AT&T Canada for an estimated C$1bn (US$705m). Telus, Canada's third largest telephone company, serves customers in Alberta. AT&T Canada is one third owned by US parent AT&T, with the remainder controlled by three Canadian banks.

Reports have indicated that an agreement between Telus and AT&T Canada could be reached by the end of this month, but Telus said it could offer no assurances that a transaction would follow the talks. A deal between the two company's would shake up Canada's telecoms industry. Observers speculate that Telus would opt out of Stentor, the alliance of former phone monopolies, forcing the remaining members to seek alliances with other long distance carriers. Telus would immediately control a high speed national network, while AT&T would benefit by gaining Telus' long distance traffic in and out of the western province.
**Scott Morrison, Toronto**

### MOBILE PHONES

## Ericsson in Java deal with Sun

Ericsson, the Swedish telecommunications group, said yesterday it had signed a licensing agreement with Sun Microsystems to use the US company's Java computer programming language in its versions of next-generation mobile telephones. Jan Ahrenbring, a senior Ericsson executive, said Java was one of several possible software technologies which would form a platform for development of its "third generation" cellular handsets.

These phones, due to be launched in about 2002, will provide subscribers with advanced multimedia services including internet access. They will eventually supersede existing first generation analogue equipment and second generation digital phones.

Ericsson did not disclose the value of the deal and said it was exploring similar co-operation pacts with other software manufacturers. Ericsson's most-traded B shares rose SKr2.50 to SKr380.50 in Stockholm. Sun Microsystems shares climbed $⅝ to $44⅞ in early trading in New York. **Greg McIvor, Stockholm**

### CONSULTING

## Outsider to head PA Consulting

PA Consulting, the London-based management consultancy, has appointed an outsider, Jeremy Asher, as chief executive. Jon Moynihan, PA's high profile boss, will stay on as executive chairman. Mr Asher has been an entrepreneur in the oil industry, owning and then selling the former Mobil refinery at Wilhelmshaven in Germany.

The appointment follows a hitherto unpublicised crisis within the privately owned PA, which saw Mr Moynihan briefly resigning as chairman and chief executive last August. The dispute concerned the 70 per cent of PA's shares held by the Butten Trust, named after the founder Ernest Butten.

When the dust settled in December, Mr Moynihan was back in the chair and the Trust had agreed that PA's equity should be wholly owned by its employees. However, a search had already begun for Mr Moynihan's successor. Continued in a modified form, the process duly led to Mr Asher's appointment.

It is already clear, however, that Mr Asher will be responsible for running the client business, while Mr Moynihan will look at strategy. PA's revenues grew 25 per cent to £220m last year, and are growing at the same rate this year so far. The firm also has a cash pile of £80m, in contrast to an overdraft of £30m when Mr Moynihan arrived in 1992. **Tony Jackson, London**



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CARMAKERS INDIAN GROUP TO CURB INVESTMENT IN JOINT VENTURE

# Mahindra to allow Ford majority control

By Mark Nicholson in New Delhi

Mahindra & Mahindra, the Indian car and tractor maker, has said it would allow Ford, the US carmaker, to assume eventual majority control of their equal joint venture to make passenger cars for the Indian market.

Both companies have invested equity worth $35m in Mahindra Ford India Limited, the 50-50 joint venture agreed two years ago. The collaboration is already producing Ford Escort models from a Mahindra plant in Nasik in Maharashtra and is due to launch next year an adapted version of the Ford Fiesta from a 100,000-unit capacity plant nearing completion in southern Tamil Nadu.

However, Mahindra said in a letter to shareholders that it had decided not to contribute to the next tranche of equity in the car project and would instead focus investment in the car sector on "core" businesses and the development of a locally designed range of utility vehicles.

The Indian company said the "substantial" expected investment in its existing tractor, commercial and utility vehicles and in a new "world-class development facility" to design the new vehicles had prompted the decision.

"The board reviewed the deployment of its resources and has advised Ford that for the time being we will restrict our equity investment in MFIL," the letter said.

Mahindra said the company would develop the new utility vehicles, under a code name "Scorpio", through their own Bombay design centre, but in collaboration with Ford engineers. It said the US company had expressed interest in eventually exporting the vehicle, due for production by 2001, under the Ford brand.

Mahindra said the Scorpio project would require investment of about $150m.

Mahindra said its decision was likely to reduce its stake in MFIL to 20 per cent. The group added that the project to manufacture a Fiesta-based car would require further investment of $225m-$250m. It was "refocusing" its investment, but did not rule out contributing additional equity to the Ford venture in future.

Mahindra said the shift should be seen as a redefinition rather than dilution of its collaboration with Ford. "The relationship has broadened from an equity-based relationship to a product and process-based relationship," said Arun Nanda, Mahindra president.

Ford and Mahindra engineers would continue to collaborate on both the passenger car and utility vehicle projects.

# India's Hindalco sees the way forward in aluminium

Country's second largest producer is building a second plant as part of an Rs80bn expansion programme, writes **Kunal Bose**

Hindalco Industries, India's second largest producer of aluminium and a flagship of the Aditya Birla Group, is proposing to build a greenfield aluminium complex in the eastern state of Orissa, as part of a Rs80bn ($2.02bn) expansion.

The project comes as Hindalco is about to complete an investment of some Rp18bn to "substantially expand and modernise" the existing complex in Renukoot in the northern state of Uptar Pradee, according to A.K. Agarwala, chief executive and president. In three months, when the smelting capacity in Renukoot is raised 15 per cent to 242,000 tonnes, Hindalco will displace Nalco, the aluminium company 87.2 per cent owned by the federal government, as India's largest producer of aluminium.

"There is no scope for further growth in Renukoot. We began making aluminium here in 1962 with an annual capacity of 20,000 tonnes with technology from Kaiser Aluminium of the US. We have used up all the land and infrastructure is exploited to the maximum," says Mr Agarwala.

Analysts say the growing middle-class, an expanding car sector and a national programme to build a power transmission network will ensure growth in aluminium demand of between 8 per cent and 9 per cent a year in India. The country, now self-sufficient in the metal, will have a shortage of 126,000 tonnes by 2000 which will rise to 458,000 tonnes by 2005.

According to one analyst, Hindalco's planned smelter in Orissa is "the right move at the right time".

However, the group is not only targeting the domestic market as it rushes to secure bauxite and all mining rights and land for the smelter, alumina refinery and power complex.

"We had a 36 per cent share of the domestic aluminium market. While we won't maintain this dominant position, we want to take advantage of the very little smelting capacity in south and south-east Asia. Hindalco is one of the lowest-cost producers of metal in the world and in the year to March 1998 it will export 28,000 tonnes of aluminium," says Mr Agarwala.

According to Morgan Stanley Dean Witter, Hindalco's operating cost in Orissa will be nearly Rs3,000 a tonne of aluminium lower than in Renukoot. Mr Agarwala says: "The cost of producing alumina in Renukoot is high since we haul bauxite from far-off places in Bihar and Madhya Pradesh. But we run the smelter and power complex extremely efficiently. The alumina refinery in Orissa will be built next to the country's one of the finest bauxite deposits, making the operating cost of the proposed complex lower."

**An expanding car sector and a national programme to build a power network will lift aluminium demand by 8-9 per cent a year in India.**

The cost of production of alumina in Orissa will be among the lowest in the world, which will allow Hindalco to export up to 500,000 tonnes of the metal after meeting the requirement of the new smelter, says S.K. Tamotia, president. Analysts say that because higher prices for aluminium are available domestically, the company will not export more than 20 per cent of what is produced in Orissa.

The Orissa project will be financed at least 35 per cent from company funds. "We are a highly profitable company and we had nearly Rp26.3bn free reserves at March 1997. Foreign loans will take care of 20 per cent of the project cost and local currency loans another 15 per cent. We plan to raise a maximum of 15 per cent of project cost by equity dilution and this can be done by a combination of issue of Global Depositary Receipts and a rights offer," says Mr Agarwala.

Morgan Stanley Dean Witter points out that, as the company had a "low gearing of 24 per cent at end 1996-97", the Orissa project can be "significantly leveraged".

If the project goes according to schedule, production will start in the second half of 2001. "Our objective is to enhance shareholder value. The project will offer a new tax shield to the group. We believe that the interest of shareholders will be best served if Hindalco sticks to aluminium and sell an increasing portion of the metal in value-added form," says Mr Agarwala.

The company will add value by manufacturing end-products such as car wheels and drinks cans. It will buy technology from Stahlschmidt and Maiworm of Germany for the car wheel project, in which it will invest Rp900m. Production of drinks cans will require an investment of Rp2.5bn.

R.K. Kasliwal, joint president, says: "There is an upbeat mood in the company. Hindalco will end the current year with a much higher production of aluminium and profits. The result for 1998-99 will be even better as the extra smelting capacity, backed by a 575MW power complex, will be available for nearly the whole year. Moreover, we will be selling 55 per cent of production in value-added form."

J.P. Morgan sees Hindalco's 1997-98 net profits 32.9 per cent higher at Rp5.20bn on sales up 32.2 per cent at Rp15.3bn. According to the company, even though prices fell, Hindalco's realisation of Rp66,308 a tonne in the domestic market is up 6 per cent.

"This is because of the Indian customs duty of 25 per cent on aluminium. The company raised the metal price by Rp3,000 a tonne in October 1997. We estimate Hindalco's production to be up 35,728 tonnes to 202,000 tonnes," says Navin Suchanti, managing director of Pressman Finance, the stockbroker.

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# CP Group unit eyes motorcycle disposal

CP Pokphand, the Hong Kong subsidiary of Thailand's CP Group, said yesterday it was in talks to sell its 50 per cent stake in Shanghai-Ek Chor Motorcycle to a Chinese partner, writes Ted Bardacke in Bangkok.

Shanghai-Ek Chor, a joint venture between CP and the state-owned Shanghai Automotive Industry Corporation, runs China's largest motorcycle factory and controls about 7 per cent of the Chinese motorcycle market. It is the largest holding of Ek Chor China Motorcycle, which is listed on the New York Stock Exchange.

The company says profits at Shanghai-Ek Chor have declined because of the Chinese government's reluctance to fulfil promises to impose order on the country's saturated and diffuse motorcycle market.

CP, an agriculture-to-telecommunications group which is the largest foreign investor in China, is selling some assets in China to compensate for heavy foreign exchange losses suffered by some of its non-agricultural Thai subsidiaries, notably TelecomAsia, the fixed-line telephone operator.

The company said negotiations to sell its stake in Shanghai-Ek Chor were continuing, but there was no assurance the transaction would proceed. Nor was it in negotiations to sell its stakes in Shanghai-Ek Chor General Machinery, Luoyang Northern Ek Chor Motorcycle or Zhan Jiang Deni Carburetor, the other main holdings of Ek Chor China.


Uneasy rider: China's motorcycle market is diffuse and saturated

# Daewoo sells part of 40% Kazakh stake

By Charles Clover in Kiev

Daewoo, the South Korean industrial group, confirmed yesterday that it had sold part of a 40 per cent stake in Kazakhtelecom, Kazakhstan's telecommunications monopoly, which it was awarded last year as part of Kazakhstan's privatisation programme.

Dealers in Almaty put the size of the stake sold at 10 per cent.

Daewoo was said by one person in the Almaty market to have agreed with Kazkommerts Securities, the Almaty-based investment bank, to sell the entire 40 per cent stake. The Kazakh government retains the remaining 60 per cent of Kazakhtelecom and the buyers of the Daewoo stake are not yet known.

Daewoo officials in Almaty could not offer an explanation for the sale, though they did not exclude that it was the result of financial difficulties afflicting Daewoo in the wake of South Korea's macro-economic difficulties.

Kazakhtelecom said it could not comment on the sale, as it had not seen any official documentation.

Daewoo was awarded the stake in Kazakhtelecom last year after beating a number of other companies in a tender.

It had promised to pay $1.37bn, which included a $1bn investment to increase the number of phone lines in Kazakhstan from 2m to 3.3m by 2000. Kazakh officials, however, have complained recently that they have not seen any of the promised investment.

A Daewoo official in Almaty confirmed that investment plans had been delayed. "You know the economic situation in South Korea," he explained.

The company maintained it would stick to its investment pledge, regardless of whether it sold the shares.

The fate of Kazakhtelecom calls into question Daewoo's ambitious investment plans elsewhere in the former Soviet Union.

Last month, for example, Daewoo signed a joint venture agreement with the Ukrainian factory Avtozaz, in which Daewoo has promised to invest $1.3bn over several years – a figure that will nearly double the total foreign direct investment in Ukraine since independence in 1991.

As a condition for the deal, however, Ukraine has had to implement restrictions on the import of used cars and grant Daewoo tax holidays. That has angered the European Commission and may hurt Ukraine's chances for membership in the World Trade Organisation.

Officials at Daewoo's Kiev office said their investment plans in Ukraine had not changed.

The Korean group's other investments in the region include a car factory in Uzbekistan.



# Steady Safe seeking to reschedule $280m

By Sander Thoenes in Jakarta

Steady Safe, the Indonesian taxi and bus operator, said yesterday it was still seeking to reschedule $280m in promissory notes with the liquidation team of Peregrine, the bankrupt Hong Kong investment bank.

Shadik Wahono, vice-president, said the company was also hoping for government support to keep its public transport in business.

Sofia Tian, investor relations manager, said Steady Safe had dropped plans for a rights issue and equity swap, agreed by Peregrine before it collapsed but blocked by stock market regulators. "When you're dealing with a liquidation team it's different," she said. "Their objective is to get money."

Ms Tian said Steady Safe had yet to initiate any restructuring or sell assets and was awaiting communication from the liquidation team before submitting any proposal for debt rescheduling. She said the company still had cash flow from its buses, taxis and ferries but might consider selling off some to create cash either for debt payments or pay for spare parts, which are imported and have tripled in prices since the rupiah collapsed. The company estimated its property's net book value at Rp342bn ($35.4m) in June 1997.

Shareholders at an extraordinary general meeting yesterday removed President Suharto's eldest daughter as a partner of Steady Safe.

# HK group to raise US$250m

New World Infrastructure, the separately listed arm of New World Development, the Hong Kong-based property developer, plans to raise US$250m through a convertible bond issue, writes Louise Lucas in Hong Kong.

The company, which yesterday reported a 25 per cent rise in net profits to HK$342.6m (US$44.2m) for the six months to December 31, plans to raise funds for working capital and to finance existing and future projects.

Standard & Poor's, the US rating agency, assigned a BBB- rating to the proposed bond, which will mature in 2003. This is in line with the company's corporate credit rating.

**STOCK MARKET** INDICATOR SINKS TO HISTORIC LOW SUGGESTING MARKET IS OVERVALUED

# Bull run hits dividend yield

By Philip Coggan, Markets Editor

The phenomenal rally in the London stock market has carried the dividend yield on the FTSE All-Share index down to what is believed to be its lowest level since the first world war.

The dividend yield on the all-share dropped to 2.77 per cent yesterday compared with 2.85 per cent at the height of the 1972 and 1987 bull markets. Barclays Capital, which keeps figures on the market back to 1918, does not believe the yield has ever been lower.

The level of dividends has been one of the most popular ways of valuing the stock market. As share prices rise, the yield falls, so a low yield is a potential sign that the market is overvalued. The 1972 and 1987 lows were followed by bear markets.

Further, the quoted yield figure is gross (before tax). But since the dividend tax credit for institutional investors was abolished in the 1997 Budget, few investors actually receive their dividends gross. Only personal equity plan holders can claim back the 20 per cent credit, and that will be reduced to 10 per cent next year. In net terms, the dividend is 2.35 per cent. Richard Jeffrey, Charterhouse group economist, says if one assumes future dividend growth in line with nominal gross domestic product growth of 5 per cent, shares do not offer a sufficient potential margin over gilts, given the risks. "The market is looking incredibly overvalued," he says.

However, bulls tend to argue that the nominal dividend yield is less important now. Low inflation means that investors no longer need a high nominal yield to compensate them for the effect of price rises.

Ian Scott, Lehman Brothers strategist, points out that real yields have generally fallen: the yield on index-linked gilts has dropped to 2.88 per cent. He says the best recent indicator of the value of equities has been the earnings yield (the inverse of the price-earnings ratio) relative to the bond yield. "On that basis, shares look attractively valued."

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## RESULTS

| | | Turnover (£m) | | Pre-tax profit (£m) | | EPS (p) | | Dividends: Current payment (p) | Date of payment | Corresponding dividend | Total for year | Total last year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Aggregate Inds | Yr to Dec 31 | 600.7 | (317.6 ) | 45.4♠ | (23.4 ) | 2.9 | (2.4 ) | 1.2♣ | July 10/13# | 1.2 | 2♣♣ | 2 |
| Asda Property | Yr to Dec 31 | 44.1 | (31.7 ) | 9.8 | (8.82 ) | 8 | (5.9 ) | 2.1 | July 1 | 1.95 | 3 | 2.8 |
| Avonside | Yr to Dec 31 | 81.1 | (83.4 ) | 3.03 | (1.08 ) | 5.25 | (3.85 ) | 1 | May 29 | 1 | 1.5 | 1 |
| Boxmore Intl | Yr to Dec 31 | 100.7 | (88.5 ) | 16.9 | (14.3 ) | 16.3 | (14 ) | 2.3 | May 22 | 2.1 | 3.3 | 3.01 |
| Bremner | Yr to Dec 31 | 223.1 | (204.8 ) | 30.5 | (28.2 ) | 46.1 | (40.6 ) | 11.6 | July 1 | 10.75 | 17.2 | 16 |
| Britannic Assurance | Yr to Dec 31 ★ | - | (- ) | 355.2♦ | (91.6 ) | 148.24 | (34.42 ) | 23.6 | - | 23 | 33.6 | 28 |
| Caird | Yr to Dec 31 | 19.6 | (18 ) | 3.32♥ | (9♥ ) | 80.1 | (459.27) | 7 | June 26 | 5 | 12 | 8 |
| Croda Intl | Yr to Dec 31 | 429.1 | (447.6 ) | 39.2♠ | (42.9♠ ) | 19.4 | (21.6 ) | 6.8 | July 1 | 6.55 | 10.35 | 10 |
| Dagenham Motors | Yr to Dec 31 | 297.6 | (291.9 ) | 6.17 | (5.12 ) | 18.5‡ | (13.6 ) | 6.25 | May 28 | 5.5 | 8.75 | 7.7 |
| Daniels (S) | Yr to Dec 31 | 32.8 | (18.8 ) | 2.4♥ | (0.566♥) | 3.17† | (1.69 ) | 0.3 | July 1 | 0.15 | 0.5 | 0.25 |
| Datrontech | Yr to Dec 31 | 275 | (207.1 ) | 6.05♥ | (8.06 ) | 10.4† | (15.3 ) | 4.2 | June 10 | 4.2 | 6.3 | 6.3 |
| Delta | Yr to Jan 3 ★ | 898.4 | (950 ) | 22.5L♠ | (45.6♠ ) | 29.3L | (15.2 ) | 11.5♣ | July 1 | 14.4♣ | 16♣ | 18.9♣♣ |
| EBC | Yr to Dec 31 | 67.9 | (55.4 ) | 1.17 | (0.869 ) | 7.19 | (5.33 ) | 1.75 | May 15 | 1.5 | 2.85 | 2.5 |
| Edinburgh Fund | Yr to Jan 31 | 30 | (31.1 ) | 17♥ | (12.6♠ ) | 41.5 | (28.1 ) | 17 | May 20 | 17 | 25 | 25 |
| Flextech | Yr to Dec 31 | 100.6 | (65.2 ) | 6.2L♠ | (14.3L♥) | 3.49L | (12.76L) | nil | - | nil | nil | nil |
| Glynwed Intl | Yr to Dec 27 | 1,242 | (1,324 ) | 76.2♠ | (70.1♠ ) | 18.6 | (18 ) | 8.8 | June 5 | 8.35 | 13.2 | 12.75 |
| Greenlin | 6 mths to Jan 31 | 13.2 | (8.17 ) | 2.5 | (2.08 ) | 9.1 | (8.3 ) | 1.3 | May 6 | - | - | - |
| Holders Technology | Yr to Nov 30 | 10.3 | (7.47 ) | 0.939♠ | (0.803 ) | 14.84† | (10.95 ) | 4.75 | May 26 | 4.5 | 6.75 | 6.5 |
| Hunting | Yr to Dec 31 | 1,317 | (1,282 ) | 38.8♠ | (6.8♠ ) | 13.7 | (15.4L ) | 3.25♣ | June/July# | 6 | 9.25♣♣ | 8 |
| Iceland | 53 wks to Jan 3 | 1,566 | (1,427 ) | 43.5♠ | (56.2 ) | 11.46‡ | (13.15 ) | 3.6 | May 29 | 3.6 | 5.4 | 5.4 |
| Independent Radioφ | Yr to Dec 31 ☆ | 3.59 | (2.26 ) | 2.83L♠ | (2.99L♠) | 15.5L† | (25.7L ) | - | - | - | - | - |
| Marley | Yr to Dec 31 | 682.2 | (700.1 ) | 53.8 | (85♥ ) | 11.6 | (20.9 ) | 3.3 | May 29 | 2.9 | 5.4 | 5 |
| Meggitt | Yr to Dec 31 | 265.1 | (256.3 ) | 31.5 | (24.3♥ ) | 9.4 | (7.3 ) | 3.2 | July 3 | 2.85 | 4.7 | 4.2 |
| Newcastle United | 6 mths to Jan 31 | 31 | (24.6 ) | 11.6 | (6.45 ) | 7.8† | (6.2 ) | 0.6 | May 8 | - | - | 0.5 |
| Novara | Yr to Dec 31 | 215.9 | (185 ) | 7.13♠ | (8.38♠ ) | 4.46 | (6.14 ) | 3.91 | May 21 | 3.91 | 5.75 | 5.75 |
| Nycomed A'sham | 9 mths to Dec 31 ‡ | 593.1 | (426.4 ) | 61.9L♠ | (65.6 ) | 71.2L† | (63.8 ) | 17.5 | June 2 | 16 | 17.5 | 22 |
| Paramble | Yr to Dec 31 | - | (- ) | 0.076L | (0.066 ) | 1.45L | (0.75 ) | 1.4 | June 26 | 0.8 | 1.4 | 0.8 |
| Pemberstone | Yr to Dec 31 | 16.9 | (9.41 ) | 3.55 | (2.1♥ ) | 6.61† | (6 ) | 2.2 | June 4 | 2 | 3.3 | 3 |
| P&O | Yr to Dec 31 | 5,918 | (7,091 ) | 433.9♥ | (332.8♥) | 53.1 | (40.1 ) | 17 | June 9 | 17 | 30.5 | 30.5 |
| QSP | Yr to Dec 31 | 28 | (25.4 ) | 2.65 | (0.03♠ ) | 20.2 | (0.2 ) | - | - | - | - | - |
| Rage Software | 6 mths to Dec 31 | 0.873 | (3.98 ) | 0.35L♥ | (1.75L ) | 0.14L | (0.65L ) | - | - | - | - | - |
| Rutland Trust | Yr to Dec 31 | 139.6 | (116.4 ) | 14.8♠ | (12.2 ) | 4.42† | (3.91 ) | 1.25 | May 22 | 1 | 1.7 | 1.4 |
| Savoy Hotel | Yr to Dec 31 | 102.5 | (92.3 ) | 22.2♥ | (24.3L♠) | 62§ | (93.8L ) | 21 | May 26 | 17.5 | 21 | 17.5 |
| Scot Metropolitan | 6 mths to Feb 15 | 9.54□ | (10.7□ ) | 4.83 | (4.9 ) | 2.93 | (3.08 ) | 1.3 | Aug 17 | 1.2 | - | 3 |
| Secure Trust | Yr to Dec 31 | 7.54■ | (7.37■ ) | 10.7 | (9.43 ) | 50 | (44.2 ) | 16 | May 18 | 14 | 23 | 20 |
| Severfield-Reeve | Yr to Dec 31 | 121.1 | (66.2 ) | 9.16 | (4.53 ) | 32.28 | (16.34 ) | 6.25 | May 29 | 3.5 | 10 | 5.25 |
| Taylor Woodrow | Yr to Dec 31 | 1,306 | (1,200 ) | 82.1♥ | (68.8♥ ) | 14.2 | (12 ) | 3.25♣ | July 1 | 2.75♣ | 4.5♣ | 3.75♣♣ |
| Upton & Southern | 6 mths to Jan 24 ★ | 7.35 | (6.18 ) | 0.238 | (0.41 ) | 0.12 | (0.21 ) | nil | - | nil | - | nil |
| VCI | Yr to Dec 31 | 108.1 | (98.2 ) | 6.24 | (9.05 ) | 13.3 | (19.5 ) | 5.5 | June 2 | 5.5 | 7.9 | 7.8 |

| Investment Trusts | | NAV (p) | | Attributable Earnings (£m) | | EPS (p) | | Current payment (p) | Date of payment | Corresponding dividend | Total for year | Total last year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Oxford Tech VCT | Yr to Feb 28 | 94 | (- ) | 0.086 | (- ) | 2.2 | (- ) | 1.75 | June 1 | - | 1.75 | - |

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. ♦Excludes exceptional credit. †On increased capital. ♣Foreign income dividend. ♣♣Includes FID element. #Date dependent on intra-group transaction. ★Comparatives restated. ‡On reduced capital. φAim stock. ☆Comparatives for 16 months. ‡Comparatives for year to March 31. §Earnings and dividend figures refer to A share capital. □Gross rental income. ■Net interest income.

# Telewest move closes in on General Cable

By Christopher Price

Telewest Communications, the UK's second biggest cable operator, is planning to pay about £200m ($334m) for two area franchises. The move is part of a strategy to buy General Cable, the fifth biggest operator for about £575m.

The development comes days after NTL, the third largest cable operator, offered £550m for General Cable. NTL is also in the process of buying Comcast, the fourth biggest operator.

Telewest's decision to exercise pre-emptive rights over ownership of two franchises it shares with Comcast will cast a shadow over NTL's acquisition.

The move will give Telewest control of lucrative areas of London and Birmingham, making it more attractive as a suitor to General Cable, which also has a stake in the Birmingham franchise.

Cable industry consolidation has been prompted by the desire of the large shareholders in the UK groups – many of them North American media and telecoms groups – to turn round the lossmaking companies.

Should Telewest's strategy succeed, it will overtake Cable and Wireless Communications as the largest UK operator.

Much will depend on the attitude of Générale des Eaux, the French utility which owns 38 per cent of General Cable.

Both Telewest and NTL are heavily indebted and will need their offers to consist mostly of equity, with only a small cash sweetener.

Telewest believes its lower debt to equity ratio compared to NTL make it more attractive to General Cable.

NTL is likely to stress its management's entrepreneurial reputation in an industry not renowned for its marketing flair and expertise.

Analysts are divided over how the industry will eventually be structured. CWC has also been mooted as a potential predator for General Cable and could yet enter the fray. CWC is the only profitable cable company.

General Cable, Telewest and NTL all refused to comment.

# Savoy suitors seek guarantee

By Scheherazade Daneshkhu, Leisure Industries Correspondent

Suitors for Savoy Hotel are *refusing to make formal* offers for the luxury hotels group until they are given a guarantee of full control, it emerged yesterday.

The bidders include Blackstone Group, a New York-based investment bank, which is believed to have offered £520m ($868m), and Starwood Lodging, Meditrust and Patriot American Hospitality, three US-based real estate investment trusts. They are pressing the main *shareholders to achieve a* consensus on the relative values of the group's two classes of shares, according to a banker close to the talks. A preferred bidder has not yet been selected.

Granada Group owns 70 per cent of the A shares while the Wontner family and trusts hold 80 per cent of the more valuable B shares, which carry 20 times the votes of the A shares.

The family and trusts want a conversion rate which values each B share *at 6 times each A share*, while Granada is believed to be hoping for one nearer 3 times.

Savoy yesterday reported 1997 pre-tax profits of £22.2m (£24.3m losses) on turnover up 15 per cent to £101.4m.

## COMMENT

## P&O


Lord Sterling has age on his side. The blue-rinses are splashing out on P&O cruises in ever growing numbers, and yesterday's results highlighted just what a good business this is. It generates strong earnings growth and high returns, and demand shows no signs of slowing. But as P&O cruises' results get better and better, shareholders are entitled to wonder why this is not reflected in the value of their investments. This may seem churlish as P&O's shares soared to new heights yesterday, but they continue to trade at a 10 to 15 per cent discount to the market. P&O's cruising peers trade at premiums. Place P&O's cruise business on a similar multiple of 20 to 25 times earnings, and the business is worth £3.5bn to £4bn. Compare that with P&O's enterprise value of around £7.5bn, and it is no wonder that the bulls can spot a good story. Their problem is that Lord Sterling shows no signs of obliging. Talk of demerging or floating the business meets with vague arguments that the cruise arm has benefited from the cash thrown off by P&O's property portfolio. This does not make sense. There is no logic in keeping construction, ports, property, cruises and ferries under one roof. True, Lord Sterling has delivered on the first phase of his strategy and limited the company's exposure to depressed businesses. Investors should now maintain pressure for the next step: how to unlock more value out of the good businesses.

### ING Barings

The big surprise in ING Barings' efficiency drive is that it has been so long coming. Only now, three years after the Dutch group took over bankrupt Barings, is it getting round to eliminating back-office duplication. In some cases, it is actually struggling with triplication and worse – the legacy of a long series of mergers. But whether this overdue spring-cleaning will catapult ING Barings into global investment banking's top tier is another matter. For one, head office seems uncomfortable with the investment bank's bonus culture. Then there is the fact that life is terribly difficult in investment banking's muddled middle – as the likes of Barclays, NatWest and Deutsche Bank have all found. Given increasing investor pressure, ING Barings does not have all the time in the world to improve its returns.

# Brunner Mond receives approach

By Roger Taylor

Brunner Mond, the chemicals company spun out of ICI two years ago, said yesterday it had received an approach which might lead to an offer being made for the company.

Investors welcomed the news which comes after two years of dire underperformance by the company, which has seen the shares fall from a flotation price of 175p to a low of 129p. The company said any offer was likely to be at a small premium to the flotation price, valuing it at over £130m ($217m), sending the shares up 22p to 173½p.

Analyst said the likely bidder was FMC, the Chicago-based chemicals and machinery conglomerate, which is building a global position in soda ash, Brunner Mond's main product. Few other chemicals groups would be interested in the business, it was said.

Any bid for Brunner Mond would be the latest in a series of offers for UK chemicals company. Allied Colloids has recently been bought by Ciba Speciality Chemicals and last year Holliday Chemical Holdings was bought by Yule Catto.

**SHIPPING** RESULTS PROMPT 4% SHARES RISE

# Cruise and ferry sides bolster P&O

By Jonathan Ford

P&O said yesterday that its two-year restructuring programme was complete as strong performances from its cruise line and ferry businesses helped produce a 30 per cent rise in annual pre-tax profits to £433.9m ($724.6m).

The results were at the top end of the range of analysts' forecasts, prompting a 4 per cent rise in the group's share price to 889p.

"We have completed what we said we were going to do on the corporate side in March 1996," said Lord Sterling, chairman.

Since 1996 the shipping and property group has responded to shareholder criticism by putting weaker shipping businesses into joint ventures, selling large parts of its property portfolio and cutting exposure to some peripheral activities such as housebuilding.

Following this month's merger of its cross-Channel ferry operations with those of Stena Line, P&O said it would focus on achieving its stated target of a 15 per cent return on capital. Last year, it achieved 12.9 per cent.

Analysts praised the speed with which the company had completed the restructuring programme.

"When Lord Sterling laid out his medium-term plan two years ago, people wondered if he would be able to deliver it," said one analyst, "on these results, it is clear he has."

Operating profits rose from £509.3m to £568.3m on turnover 16 per cent lower at £5.9bn. The fall in sales was due to a change in the accounting treatment of the container shipping business following its merger with that of Nedlloyd at the beginning of last year.

After reorganisation costs of £34.5m – incurred as a result of the container shipping merger – and property profits of £67.2m, pre-tax profits were £433.9m (£332.8m).

Profits from cruise shipping climbed from £157.5m to £175.2m, helped by growth in the US and UK markets. P&O said bookings were strong and yields continued to rise.

The ferry operations increased profits by 42 per cent to £67.7m, assisted by increased cross-Channel traffic after the Channel tunnel fire at the end of 1996.

# Newcastle United bounces back

By Simon Kuper

Hours after forcing its two main shareholders from the board, Newcastle United yesterday revealed an 80 per cent rise in first-half pre-tax profits.

The results were presented by Sir Terence Harrison, the group chairman, who on Monday had called the five-hour board meeting which succeeded in forcing out Freddy Shepherd, the soccer club's chairman, and Douglas Hall, vice chairman.

The two men allegedly made insulting comments in a Spanish brothel about Newcastle fans, local women and Alan Shearer, the club's star player.

Their resignations were announced after midnight on Monday, under pressure from fans and Newcastle's three independent non-executives, Sir Terence, Denis Cassidy and John Mayo.

The shares yesterday rose 5p to 100p, compared with 90p when the first Hall-Shepherd revelations appeared on March 15.

However, the arrangements to succeed the two men raised further questions. Sir John Hall, the father of Douglas who retired as club chairman last year, returns until the end of the season. Since his son owns 58 per cent of the shares and Mr Shepherd 8 per cent, they will have the biggest say in choosing his successor.

Alan Shearer: warmly welcomed by Newcastle fans last year but allegedly insulted by big shareholders this year

Sir Terence said yesterday: "They must be examining the situation as to their majority shareholding." But Mr Hall needs permission from NatWest Markets, which brokered the flotation, to sell any shares before late this year.

As a reward for resigning, Mr Hall and Mr Shepherd will be able to nominate a representative each to sit on the non-executive board. They cannot choose family members, and the independent non-executives can reject their choices. But as majority shareholders, Mr Hall and Mr Shepherd could remove the board.

The company's results for the six months to January 31 showed pre-tax profits jumping to from £6.45m ($10.77m) to £11.6m – more than many analysts had expected for the full year. Sales rose 26 per cent to £31m. Earnings per share were 7.8p (6.2p), for a maiden interim dividend of 0.6p. The gains were largely due to Newcastle's appearances in the Champions League, from which they were knocked out in December. Income and spending in the second half of the year are expected virtually to cancel each other out, unless Newcastle wins the FA Cup. The team has reached the semi-final, but risks relegation from the Premiership. However, Sir Terence said the full-year results were "likely to represent a healthy improvement over last year".

Match receipts, television and sponsorship income all grew strongly. However, branded goods sales rose by less than inflation, from £5.4m to £5.5m. Josephine Dixon, finance director, said regional sales of branded products had nearly peaked, with 114 shops in the Newcastle area already selling the merchandise.

Analysts expect full-year profits only marginally above the half-year figure, giving forward earnings per share of 8p.

# Nycomed held by currencies

By Daniel Green

The strong pound and heavy competition in US X-ray markets held back profits at Nycomed Amersham, the Anglo-Norwegian pharmaceuticals company.

In the first post-merger results, pre-tax profits rose 9 per cent, excluding exchange rate movements, to £198.6m ($332m), calculated on a pro-forma basis.

The company, formed last year by a three-way merger of Norway's Nycomed with the UK's Amersham and Sweden's Pharmacia Biotech, is the world's biggest supplier of imaging agents that improve the clarity of X-ray images. It is also the biggest provider of supplies for biotechnology research.

Currency movements cut £35m off pre-tax profits, the company said, adding that if exchange rates stayed as they were for the rest of 1998, it would cost a further £14m-£16m.

The pro-forma figures also exclude disposals and merger costs and took account of a change in the company's year-end from March to December.

After integration costs, which amounted to £114.5m, the company was left with a statutory loss for the nine months to December 31 1997 of £61.9m (£65.8m profit). Turnover for this period rose from £426.4m to £593.1m. Pro-forma 1997 sales rose 7 per cent to £1.38bn.

Sales at Amersham Pharmacia Biotech, which supplies biotechnology laboratories, rose 8 per cent to £425m. The main problem was the US X-ray contrast agents business, where sales fell 15 per cent to £152m.

Mr Castell said that new products should more than make up for the decline this year.

Pro-forma earnings per share rose 7 per cent to 90.1p – for the nine months there were losses of 71.2p (63.8p earnings). The final and single dividend payment is 17.5p (16p) against a 22p total last time.

The company announced a 5-for-1 share split.

# Five BP directors awarded maximum share bonus

By Andrew Edgecliffe-Johnson

British Petroleum has awarded share bonuses worth more than £3m ($5m) to five directors, it said yesterday. The awards, which include more than £900,000 worth of shares for John Browne, chief executive, are the maximum which could have been granted under the group's long term performance plan.

BP has given Mr Browne and Rodney Chase, deputy chief executive, 100,200 shares each. John Buchanan, finance director, received 58,400 shares, and two managing directors, Richard Olver and Chris Gibson-Smith, were awarded 37,500 shares each.

At yesterday's closing price of 907p, down 26½p, the shares are worth £3.02m in total. Mr Browne's pay before long-term awards rose from £752,000 to £938,000.

BP said yesterday that the maximum amounts had been granted under the three-year rolling plan because the company's performance had exceeded that of seven peer-group companies – Amoco, Arco, Chevron, Exxon, Mobil, Shell and Texaco.

The scheme's main performance measure is shareholder return, but the maximum payment required that BP also show "satisfactory performance" against measures such as cash flow, return on capital employed and earnings per share.

# Britannic reaps overhaul benefit

By Christopher Brown-Humes

Britannic Assurance yesterday unveiled better-than-expected profits and investment performance for 1997.

Operating profits were £174.3m ($291m), about £10m above estimates, against a restated £81.9m for 1996.

Much of the improvement stemmed from the release to shareholders of £94.3m from funds surplus to policyholder needs, following an agreement with the Department of Trade and Industry early last year.

But analysts said the post-tax investment return on shareholders' retained capital at 20.2 per cent was also better than expected.

Britannic's underlying performance was static – although it claimed this was a reasonable achievement in a year disrupted by management change and restructuring of the salesforce.

Brian Shaw, chief executive, said the benefits of the overhaul, which included big cuts in branch numbers and head office staff, were showing through. They included annualised savings of £20m, higher salesforce productivity, and improved new business results.

Mr Shaw said the company planned to broaden its product range to include deposit accounts, run with Bank of Scotland, and had begun to pilot schemes – with other companies – in unsecured loans and health insurance.

# Delta plans Dutch purchase

By Andrew Edgecliffe-Johnson in London and Gordon Cramb in Amsterdam

Delta, the restructuring electrical and engineering services group, is planning a sizeable expansion of its electrical protection business with the Fl287m (£83m) acquisition of Holec Holland, an electrical switchgear manufacturer in the Netherlands.

Delta also announced that a £49m write-down of its commodity cables assets knocked the group from a £45.6m pre-tax profit to a £22.5m loss in 1997. Pre-exceptional profits were up 8 per cent at £59.2m. The annual dividend, which had been enhanced for tax reasons last year, settled back from 18.9p to 16p, with an 11.5p final.

The company reported losses per share of 29.3p, compared to 15.2p earnings last year.

John Scott-Maxwell, Delta's chief executive, said the Holec acquisition would enhance its position in electrical protection in Europe and Asia.

Holec, which makes systems and components for low-voltage and medium-voltage electrical switching and protection, made pre-tax profits of about Fl35m on sales of Fl350m in 1997.

The proposed deal, which is subject to conditions, comes six months after Holec abandoned a planned flotation in Amsterdam.

# German bunds lead European rally

**GOVERNMENT BONDS**

**By Vincent Boland in London and John Labate in New York**

European markets closed higher yesterday as investors awaited two key reports due today that will effectively be the last word on the single currency.

Positive German inflation numbers and a firm opening in the US helped sentiment, although trading generally was quiet.

GERMAN BUNDS led the rally ahead of reports from the European Monetary Institute and the European Commission that most analysts agree are unlikely to upset the European monetary union drive. The Bundesbank is due to present its own Emu report on Friday.

Criticism of some of the 11 aspiring members' monetary and fiscal preparations may be heard from the EMI, the forerunner of the single European central bank, but "Eleven into one will – must! – go," noted Alison Cottrell, international economist at PaineWebber, in a commentary.

The inflation data, meanwhile, showed little upward pressure on prices, leaving the near-term interest rate outlook favourable for bonds. The June bund future settled in London at 107.77, up 0.19, although DTB volumes remained relatively modest with 212,000 contracts exchanged.

FRENCH BONDS recovered with bunds after a sharp fall on Monday. The June future settled at 104.22, up 0.26, in quiet Matif trading, which is still being hit by a strike by local traders.

Claims by a senior executive at KfW, the state-owned German development bank, that the bund would be the benchmark in Emu rather than the OAT, raised eyebrows but little else.

UK GILTS were modestly higher ahead of an auction today of £2bn of 10-year bonds, which is expected to attract considerable support because of a general shortage of supply of new paper in the market after a sharp downward revision of the public sector borrowing requirement.

The June gilt future rose $\frac{7}{32}$ to settle at 108¾ but trading was thin, with just 40,000 contracts changing hands by early evening.

The Bank of Spain failed to provide SPANISH BONOS with a cut in interest rates, but most observers said it was just a matter of time before there was a reduction, especially since the government said yesterday it had slashed its budget deficit in the first two months of this year.

The yield on 10-year bonos slipped below 5 per cent for the first time, while the June future settled 0.21 higher at 109.38 in quiet trading. The spread between 10-year bonos and bunds now stands at 16 basis points.

US TREASURIES had moved little by early afternoon as the market awaited an auction.

The benchmark 30-year bond had slipped $\frac{1}{32}$ to 103¼, yielding 5.874 per cent. The two-year note was unchanged at 99$\frac{31}{32}$, yielding 5.532 per cent, and the 10-year note was unchanged at 99¾, yielding 5.566 per cent.

The US Treasury was about to auction $14bn in two-year notes. "The market is holding its breadth for that," said Tom O'Connell, senior government trader at First Chicago Capital Markets, adding that some direction was expected to emerge after the auction.

Helping to add calm to the day's pace was a lack of fresh economic data. That will change today, when durable goods for February and existing home sales reports are issued. On Thursday GDP revisions will be published and on Friday personal income data will be released.

# Strong response to Russian eurobond

**By Samer Iskandar**

Investors took Monday's sacking of the Russian government in their stride yesterday when they rushed to buy the country's latest DM1.25bn offering of seven-year eurobonds.

The launch, Russia's first since last autumn's Asian crisis, surprised bankers, who were expecting a delay because of the political turmoil. "It was a bold move to go ahead with all that was happening," said a syndicate manager in London. "But the fact that it was increased [from DM1bn initially] proves it was the right decision."

The lead managers said investors had maintained their orders after last week's road-show, allowing the offering to go ahead.

"Investors are there for the long term," said Deutsche Morgan Grenfell, joint lead manager with SBC Warburg. "They are willing to ride out any short-term volatility."

Standard & Poor's, the US credit rating agency, confirmed Russia's BB– foreign currency rating saying it "takes into account the kind of political uncertainty witnessed [on Monday]".

The deal was priced to yield 475 basis points over equivalent German bunds, at the high end of 465-475 basis point indicated range. In the afternoon the spread tightened by two basis points.

Deutsche described the launch as a challenge, but said the deal helped give momentum to Russia's international funding programme. Russia is aiming to raise up to $3.5bn on the capital markets this year, from a total funding requirement of about $10bn.

## NEWS DIGEST

**EURO DERIVATIVES**

### SocGen and French utility in private 'cap' agreement

Société Générale, the French bank, and Compagnie Générale d'Immobilier et de Services, the real estate arm of the utilities conglomerate Compagnie Générale des Eaux, have signed a private derivatives agreement denominated in euros, the planned European single currency.

The so-called "cap", which protects CGIS against a rise in the three-month interest rate on the euro, is believed to be the first of its kind. The deal will guarantee a maximum borrowing rate of 4 per cent for CGIS. If Euribor – the average of rates quoted by 60 or so European banks – rises above that level, SocGen will forgo the difference. The transaction, which runs for a year, has a starting date of January 1 2000. All derivatives transactions involving the euro have forward starting dates, because they only become valid after the introduction of the new currency next January.

Although other banks have been active in the over-the-counter market for euro-denominated derivative products, SocGen was the first bank to peg a swap to the Euribor reference rate, in January. Others – including Paribas, the French bank that has been building a niche business in the euro – say they traded swaps and other OTC products denominated in euros as early as last year. However, those trades were mainly pegged to the rival Euro Libor rate compiled by the British Bankers Association, which publishes Libor rates on existing currencies due to be replaced by the euro.

Continental European banks, and French banks in particular, have been encouraged by their countries' monetary authorities to use the Euribor rate. Bankers in London are sceptical about Euribor, because the sample will contain banks with relatively low credit ratings, while Libor will only take quotes from the largest, most creditworthy banks. The switch from national Libor rates to Euribor also raises legal uncertainties, because the banks contributing to Euribor fall under several different jurisdictions.

Samer Iskandar

**ELECTRICITY CONTRACTS**

### Nymex expansion approved

The New York Mercantile Exchange, the largest of the Manhattan-based futures markets, has received regulatory approval for two new sets of electricity futures and options contracts based on delivery in the eastern US, giving it a head-start in what could become a battle between exchanges.

Nymex already trades electricity contracts based on western delivery, with volumes averaging around 2,500 contracts a day. The new contracts will provide for delivery via the Cinenergy transmission system, which is based in Ohio, and via Entergy's system, which is focused on Louisiana. Nymex is also planning a third set of eastern US electricity contracts, with delivery through the Pennsylvania-New Jersey-Maryland (PJM) interconnection system, but said yesterday it had delayed submitting these for regulatory approval while the eight utilities involved in the PJM interconnection work out transmission policies.

Nikki Tait, Chicago

# RBS in novel securitisation

**INTERNATIONAL BONDS**

**By Samer Iskandar**

The Royal Bank of Scotland has taken securitisation a step further, issuing securities collateralised with existing asset-backed securities.

The diversification offered by the transaction, called Ben Nevis One, is superior to that of "first degree" securitisations, because the collateral consists of a wide range of asset classes.

These include securitised mortgages, credit card receivables and corporate loans. The deal also offers geographical diversification.

As a result, $474.25m of a total $515.5m of bonds were granted a preliminary AAA rating by DCR, the US rating agency, although less than half the collateral is rated AAA. Credit enhancement was also helped by the issuance of $35.5m of Class B bonds, which carry most of the risk and are rated BBB–.

"This deal creates more liquidity across our balance sheet," said Brian Crowe, RBS director of treasury and capital markets.

BRAZIL tapped the D-Mark sector with DM750m of 10-year bonds. The issue pays a 10 per cent coupon the first two years, then steps down to 7 per cent.

The sterling sector continued to see healthy demand on the back of a strong currency and confidence after last week's presentation of the 1998-99 budget.

CIBA SPECIALTY CHEMICALS, the Swiss chemical and pharmaceutical group, ventured outside its domestic currency for the first time, with a £300m issue of 15-year bonds.

## New international bond issues

| Borrower | Amount m. | Coupon % | Price | Maturity | Fees % | Spread bp | Book-runner |
|---|---|---|---|---|---|---|---|
| **US DOLLARS** | | | | | | | |
| Ben Nevis One, Cls A(a)‡ | 474.25 | (a1) | 100.00 | Feb 2008 | 0.125 | - | Royal Bank of Scotland |
| Bank Montreal(c)‡ | 350 | (c1) | 99.87R | Apr 2008 | 0.375R | - | BMO Nesbitt/Goldman |
| European Inv'ment Bank(d) | 300 | zero | 18.5482 | Nov 2026 | 0.30 | - | CSFB |
| Bancaja Intl Finance‡ | 250 | (e) | 99.99 | Apr 2000 | 0.10R | - | ABN Amro |
| Argentaria Capl Funding(f) | 150 | 7.20(f) | 100.00 | undated | 2.00 | - | Merrill Lynch Intl |
| **D-MARKS** | | | | | | | |
| KfW | 4bn | (g) | (g)R | Jan 2009 | 0.325R | +15(-14) | Deutsche/Merrill Lynch |
| Citibank CCMT 98-5, Cls A | 1.25bn | 4.875 | 99.65R | Apr 2005 | 0.30R | +25(7%Jan05) | Deutsche Morgan Grenfell |
| Russian Federation | 1.25bn | 9.375 | 99.668R | Apr 2005 | 1.00R | 475(7%Jan05) | Deutsche/SBCWDR |
| Federative Republic of Brazil | 750 | (h) | 99.20R | Apr 2008 | 0.75R | +305(Jan08) | ABN Amro/Dresdner KB |
| Argentaria Capl Funding(f) | 350 | 6.35(f) | 100.00 | undated | 2.00 | - | Merrill Lynch Capl Mkts |
| **STERLING** | | | | | | | |
| CIBA Specialty Chemicals | 300 | 6.50 | 97.92R | Apr 2013 | 0.50R | +65(8%Aug12) | SBC Warburg Dillon Read |
| Republic of Austria | 250 | 6.25 | 99.775R | Apr 2004 | 0.275R | +19(6%Nov04) | HSBC Markets |
| Frankfurter Hypo(k) | 100 | 6.375 | 100.088R | Feb 2008 | 0.325R | +34(7¼Dec07) | Barclays/Deutsche MG |
| **FRENCH FRANCS** | | | | | | | |
| Popular Finance(Cayman)‡ | 1bn | (m) | 99.743R | Apr 2009 | 0.40R | - | CAI/Paribas |
| Chase Manhattan Corp(l) | 500 | 6.125 | (n) | Sep 2009 | 0.50 | +63(l) | Banque CPR/Chase |
| **ITALIAN LIRE** | | | | | | | |
| World Bank(o) | 250bn | (o1) | 99.70r | Apr 2013 | 0.60r | - | Credito/Sanwa Intl |
| **SWISS FRANCS** | | | | | | | |
| Total | 200 | 2.25 | 100.85 | Apr 2003 | 2.00 | - | CSFB |
| **EUROS(p)** | | | | | | | |
| Reseau Ferre de France | 1bn | 5.25 | 100.00R | Apr 2010 | 0.35R | +20(l) | Paribas/SBC Warburg DR |
| **SWEDISH KRONOR** | | | | | | | |
| Crédit Local De France | 500 | 5.375 | 102.05 | May 2008 | 1.875 | - | BIL |
| **NEW ZEALAND DOLLARS** | | | | | | | |
| World Bank(q) | 150 | 7.00 | 97.723 | Sep 200 | 0.100 | - | Hambros/RBC Dominion |

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) Legal maturity: 08/11/30. Av life: 2¼ yrs. 10% Clean-up call. a1) 3-mth Libor +25bp. c) Callable after 5 yrs at par. c1) 3-mth Libor +30bp to Apr 03, then +135bp. d) Fungible with $1bn. e) 3-mth Libor flat. f) Callable after Apr 03 at par. g) Priced today. h) 10% to 23/4/00, then 7%. j) Over interpolated yield. § Quarterly. k) Fungible with $250m. Plus 29 days accrued. m) Tec-10 –60bp. n) Fungible with FFr1.2bn. Plus 200 days accrued. Priced today. o) Callable after 4 yrs at par. o1) 7¼% to Apr 02, then 15% –2 x 12-mth Libor. p) Pays in Ecu prior to Emu. Spread relates to French govt Ecu bonds. q) Fungible with NZ$650m. Plus 27 days accrued. r) Recommended re-offer.

## WORLD BOND PRICES

### BENCHMARK GOVERNMENT BONDS

| Mar 24 | Red Date | Coupon | Bid Price | Bid Yield | Day chg yield | Wk chg yield | Month chg yld | Year chg yld |
|---|---|---|---|---|---|---|---|---|
| Australia | 04/00 | 7.000 | 103.8710 | 4.99 | -0.02 | -0.03 | -0.07 | -1.84 |
| | 10/07 | 10.000 | 130.5528 | 5.75 | -0.02 | - | +0.04 | -2.29 |
| Austria | 09/99 | 7.000 | 104.0100 | 4.13 | +0.02 | +0.12 | +0.08 | +0.03 |
| | 07/07 | 5.625 | 105.0700 | 4.93 | -0.02 | - | -0.11 | -0.91 |
| Belgium | 01/00 | 4.000 | 99.8700 | 4.07 | - | +0.06 | +0.09 | +0.21 |
| | 03/07 | 8.250 | 109.3600 | 4.92 | - | -0.01 | -0.07 | -1.11 |
| Canada | 09/99 | 4.750 | 99.7600 | 4.91 | +0.01 | -0.02 | -0.15 | -0.27 |
| | 06/07 | 7.250 | 113.8000 | 5.34 | +0.01 | -0.02 | -0.16 | -1.25 |
| Denmark | 12/99 | 6.000 | 102.8200 | 4.23 | -0.04 | +0.07 | -0.11 | -0.02 |
| | 11/07 | 7.000 | 114.1600 | 5.11 | -0.03 | - | -0.13 | -1.57 |
| Finland | 01/00 | 11.000 | 109.6340 | 3.67 | -0.04 | +0.08 | +0.04 | -0.21 |
| | 04/06 | 7.250 | 116.5080 | 4.82 | -0.05 | +0.01 | -0.11 | -1.07 |
| France | 01/00 | 4.000 | 100.0038 | 3.99 | -0.04 | +0.07 | +0.05 | +0.14 |
| | 10/04 | 6.750 | 111.8400 | 4.65 | -0.04 | +0.02 | -0.05 | -0.76 |
| | 10/07 | 5.500 | 104.7300 | 4.87 | -0.03 | -0.01 | -0.09 | -0.91 |
| | 10/25 | 6.000 | 108.1800 | 5.42 | -0.02 | -0.01 | -0.10 | -1.23 |
| Germany | 09/99 | 4.000 | 100.1700 | 3.89 | -0.03 | +0.04 | +0.07 | +0.07 |
| | 11/04 | 7.500 | 115.8200 | 4.61 | -0.04 | - | -0.05 | -0.80 |
| | 07/07 | 6.000 | 108.4100 | 4.86 | -0.02 | -0.01 | -0.06 | -0.98 |
| | 07/27 | 6.500 | 115.7200 | 5.42 | -0.01 | -0.01 | -0.10 | -1.26 |
| Ireland | 04/02 | 6.250 | 101.7200 | 4.27 | -0.01 | +0.05 | -0.28 | -1.26 |
| | 08/06 | 8.000 | 120.1300 | 5.00 | -0.03 | -0.01 | -0.18 | -1.90 |
| Italy | 05/00 | 6.000 | 103.6700 | 4.46 | -0.01 | -0.04 | -0.19 | -2.88 |
| | 05/02 | 6.250 | 105.8400 | 4.67 | -0.02 | -0.04 | -0.18 | -2.83 |
| | 07/07 | 6.750 | 112.2500 | 5.07 | -0.02 | -0.07 | -0.20 | -2.77 |
| | 11/26 | 7.250 | 123.3600 | 5.59 | -0.02 | -0.08 | -0.39 | -3.12 |
| Japan | 03/00 | 6.400 | 111.4300 | 0.56 | - | -0.02 | -0.03 | -0.27 |
| | 12/02 | 4.800 | 116.7500 | 1.15 | +0.01 | -0.01 | -0.09 | -0.57 |
| | 09/06 | 3.000 | 110.8200 | 1.57 | +0.01 | -0.01 | -0.05 | -0.76 |
| | 09/17 | 3.000 | 100.4100 | 2.36 | +0.02 | - | -0.10 | -0.75 |
| Netherlands | 11/99 | 7.500 | 105.4000 | 4.63 | -0.02 | +0.09 | +0.10 | +0.07 |
| | 02/07 | 5.750 | 106.5000 | 4.83 | -0.02 | -0.01 | -0.06 | -0.84 |
| New Zealand | 02/00 | 6.500 | 97.6918 | 7.95 | +0.05 | +0.36 | +0.20 | +0.22 |
| | 11/06 | 8.000 | 105.7800 | 7.07 | +0.04 | +0.27 | +0.18 | -0.83 |
| Norway | 01/99 | 9.000 | 103.6700 | 4.37 | -0.02 | -0.13 | +0.05 | +0.88 |
| | 01/07 | 6.750 | 110.8600 | 5.17 | -0.01 | -0.06 | -0.02 | -0.88 |
| Portugal | 03/99 | 8.500 | 104.2771 | 4.60 | -0.02 | -0.01 | -0.06 | -2.15 |
| | 02/07 | 8.625 | 111.3218 | 4.90 | -0.03 | -0.05 | -0.15 | -2.01 |
| Spain | 07/99 | 7.400 | 104.2333 | 4.07 | -0.04 | -0.09 | -0.39 | -1.90 |
| | 03/07 | 7.350 | 116.7963 | 4.96 | -0.02 | -0.05 | -0.12 | -2.19 |
| Sweden | 01/99 | 11.000 | 104.8971 | 4.59 | -0.04 | -0.02 | +0.03 | -0.41 |
| | 05/07 | 8.000 | 119.6420 | 5.26 | -0.04 | +0.01 | -0.14 | -2.15 |
| Switzerland | 03/00 | 5.000 | 106.4000 | 1.65 | -0.02 | +0.12 | +0.34 | -0.27 |
| | 06/07 | 4.500 | 113.3200 | 2.77 | -0.04 | +0.06 | +0.04 | -0.84 |
| UK | 06/99 | 6.000 | 99.1328 | 6.66 | -0.02 | -0.07 | - | -0.31 |
| | 11/04 | 6.750 | 103.9453 | 6.02 | -0.02 | -0.05 | -0.08 | -1.46 |
| | 12/07 | 7.250 | 110.8234 | 5.85 | -0.04 | -0.08 | -0.11 | -1.68 |
| | 06/21 | 8.000 | 127.4380 | 5.83 | -0.02 | -0.01 | -0.05 | -1.68 |
| US | 10/99 | 5.625 | 100.1170 | 5.54 | - | +0.04 | +0.06 | -0.70 |
| | 11/04 | 7.875 | 112.3750 | 5.62 | +0.01 | - | +0.01 | -0.94 |
| | 08/07 | 6.125 | 103.5100 | 5.64 | - | +0.01 | - | -1.09 |
| | 08/27 | 6.375 | 106.0800 | 5.90 | -0.01 | -0.02 | -0.05 | -1.03 |
| ECU | 01/00 | 4.000 | 99.8000 | 4.05 | -0.02 | +0.01 | -0.14 | -0.46 |
| | 04/07 | 5.500 | 104.0800 | 4.89 | -0.03 | -0.02 | -0.12 | -1.42 |

London closing. *New York mid-day. Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents. Source: Interactive Data/FT Information

### 10 YEAR BENCHMARK SPREADS

| Mar 24 | Bid Yield | Spread vs Bunds | Spread vs T-Bonds | | Bid Yield | Spread vs Bunds | Spread vs T-Bonds |
|---|---|---|---|---|---|---|---|
| Australia | 5.75 | +0.91 | +0.18 | New Zealand | 7.07 | +2.23 | +1.50 |
| Austria | 4.93 | +0.09 | -0.64 | Norway | 5.17 | +0.33 | -0.40 |
| Belgium | 4.93 | +0.09 | -0.64 | Portugal | 4.99 | +0.15 | -0.58 |
| Canada | 5.34 | +0.50 | -0.23 | Spain | 4.98 | +0.14 | -0.59 |
| Denmark | 5.11 | +0.27 | -0.46 | Sweden | 5.26 | +0.42 | -0.31 |
| Finland | 4.82 | -0.02 | -0.75 | Switzerland | 2.77 | -2.07 | -2.80 |
| France | 4.87 | +0.03 | -0.70 | UK | 5.85 | +1.01 | +0.28 |
| Germany | 4.84 | - | -0.73 | US | 5.57 | +0.73 | - |
| Ireland | 5.00 | +0.16 | -0.57 | ECU | 4.89 | +0.05 | -0.68 |
| Italy | 5.07 | +0.23 | -0.50 | | | | |
| Japan | 1.57 | -3.27 | -4.00 | | | | |
| Netherlands | 4.83 | -0.01 | -0.74 | | | | |

Source: Interactive Data/FT Information. London closing. *New York mid-day. Annualised yield basis.

### EMERGING MARKET BONDS

| Mar 24 | Red date | Coupon | S&P Rating | Bid price | Bid yield | Day's chge yield | Mth's chge yield | Spread vs US |
|---|---|---|---|---|---|---|---|---|
| **EUROPE** | | | | | | | | |
| Croatia | 02/02 | 7.000 | BBB- | 95.1884 | 8.15 | +0.29 | -0.23 | +2.52 |
| Poland | 07/04 | 7.125 | BBB- | 102.2635 | 6.67 | +0.05 | +0.04 | +1.12 |
| Russia | 06/07 | 10.000 | BB- | 95.8000 | 10.54 | -0.08 | -0.81 | +4.97 |
| **LATIN AMERICA** | | | | | | | | |
| Argentina | 09/27 | 9.750 | BB | 100.2000 | 9.72 | -0.02 | -0.18 | +3.88 |
| Brazil | 05/27 | 10.125 | BB- | 100.2500 | 10.09 | -0.08 | -0.44 | +4.24 |
| Mexico | 05/26 | 11.500 | BB | 123.4369 | 9.15 | +0.05 | -0.18 | +3.31 |
| **ASIA** | | | | | | | | |
| China | 07/06 | 7.750 | BBB+ | 104.4139 | 7.02 | +0.13 | -0.03 | +1.46 |
| Philippines | 10/16 | 8.750 | BB+ | 94.5937 | 9.37 | +0.20 | -0.16 | +3.58 |
| Thailand | 04/07 | 7.750 | BBB- | 94.9036 | 8.56 | +0.05 | -0.21 | +3.01 |
| **AFRICA/MIDDLE EAST** | | | | | | | | |
| Lebanon | 07/00 | 9.125 | BB- | 102.6356 | 7.81 | +0.05 | -0.59 | +2.28 |
| South Africa | 10/06 | 8.375 | BB+ | 102.6734 | 7.92 | +0.05 | -0.02 | +2.36 |
| Turkey | 09/07 | 10.000 | B | 102.1200 | 9.63 | +0.05 | -0.59 | +4.09 |
| **BRADY BONDS** | | | | | | | | |
| Argentina | 03/23 | 5.500 | BB | 77.5000 | 8.09 | -0.01 | -0.22 | +2.29 |
| Brazil | 04/14 | 4.500 | BB- | 84.7500 | 9.20 | +0.07 | -0.50 | +3.54 |
| Mexico | 12/19 | 6.250 | BB | 85.7500 | 7.60 | -0.04 | -0.12 | +1.86 |
| Venezuela | 03/20 | 6.750 | B+ | 87.2467 | 7.92 | +0.02 | -0.11 | +2.24 |

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information

### BOND FUTURES AND OPTIONS

**France**

**NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000**

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 104.02 | 104.22 | +0.45 | 104.22 | 104.02 | 44,812 | 114,895 |
| Sep | 103.59 | 103.78 | +0.45 | 103.64 | 103.59 | 24 | 76 |

**LONG TERM FRENCH BOND OPTIONS (MATIF)**

| Strike Price | Calls Apr | Calls May | Calls Jun | Puts Apr | Puts May | Puts Jun |
|---|---|---|---|---|---|---|
| 102 | 2.06 | 2.16 | 2.29 | 0.01 | 0.12 | 0.25 |
| 103 | 1.11 | 1.34 | 1.52 | 0.07 | 0.30 | 0.48 |
| 104 | 0.36 | 0.69 | 0.90 | 0.33 | 0.64 | 0.86 |
| 105 | 0.06 | 0.28 | 0.47 | 1.01 | 1.23 | 1.41 |

Est. vol. total, Calls 6,835 Puts 13,773. Previous day's open int., Calls 97,127 Puts 85,699.

**Germany**

**NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%**

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 107.61 | 107.77 | +0.19 | 107.83 | 107.60 | 77590 | 209938 |
| Sep | | 107.41 | +0.21 | - | - | 0 | 492 |

**BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%**

| Strike Price | Calls Apr | Calls May | Calls Jun | Calls Sep | Puts Apr | Puts May | Puts Jun | Puts Sep |
|---|---|---|---|---|---|---|---|---|
| 10750 | 0.27 | 0.65 | 0.67 | 1.19 | 0 | 0.38 | 0.60 | 1.28 |
| 10800 | 0 | 0.39 | 0.61 | 0.94 | 0.23 | 0.62 | 0.84 | 1.53 |
| 10850 | 0 | 0.21 | 0.40 | 0.75 | 0.73 | 0.94 | 1.13 | 1.84 |

Est. vol. total, Calls 11365 Puts 12670. Previous day's open int., Calls 227041 Puts 221765

**NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%**

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 105.21 | 105.29 | +0.09 | 105.33 | 105.21 | 79,745 | 195,872 |
| Sep | - | 105.14 | +0.11 | - | - | 2 | 500 |

**NOTIONAL GERMAN BOBL FUTURES (LIFFE)* DM250,000 100ths of 100%**

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | - | 105.29 | +0.06 | - | - | 0 | 559 |
| Sep | - | 105.09 | +0.05 | - | - | 0 | 0 |

**Italy**

**NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%**

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 119.49 | 119.55 | +0.16 | 119.80 | 119.45 | 27538 | 138484 |
| Sep | 119.82 | 119.87 | +0.16 | 119.84 | 119.82 | 2450 | 5207 |

**ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%**

| Strike Price | Calls May | Calls Jun | Puts May | Puts Jun |
|---|---|---|---|---|
| 11950 | 0.61 | 0.82 | 0.56 | 0.77 |
| 12000 | 0.37 | 0.57 | 0.82 | 1.02 |
| 12050 | 0.20 | 0.37 | 1.15 | 1.32 |

Est. vol. total, Calls 1949 Puts 606. Previous day's open int., Calls 51085 Puts 121793

**Spain**

**NOTIONAL SPANISH BOND FUTURES (MEFF)**

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 109.29 | 109.38 | +0.21 | 109.43 | 109.20 | 48,334 | 101,869 |
| Sep | | 108.69 | | | | | |

**UK**

**NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%**

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 102.53 | 102.58 | +0.09 | 102.65 | 102.52 | 2293 | 11292 |
| Sep | | 103.73 | +0.09 | | | 0 | 0 |

**NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%**

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 108-22 | 108-24 | +0-08 | 108-02 | 108-02 | 28 | [illegible] |
| Mar | 108-04 | 108-08 | +0-08 | 108-11 | 108-01 | 40592 | 202984 |

**LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%**

| Strike Price | Calls Apr | Calls May | Calls Jun | Puts Apr | Puts May | Puts Jun |
|---|---|---|---|---|---|---|
| 108 | 0-56 | 0-52 | 1-06 | 0 | 0-38 | 0-54 |
| 109 | 0 | 0-23 | 0-41 | 0-55 | 1-07 | 1-25 |
| 110 | 0 | 0-08 | 0-22 | 1-56 | 1-56 | 2-06 |

Est. vol. total, Calls 3604 Puts 1250. Previous day's open int., Calls 45321 Puts 30167

**US**

**US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%**

| | Open | Latest | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 121-00 | 121-04 | +0-02 | 121-08 | 120-18 | 226,946 | 672,244 |
| Sep | 120-11 | 120-26 | - | 120-30 | 120-10 | 1,130 | 61,192 |

**Japan**

**NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%**

| | Open | Close | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 130.74 | 130.69 | | 130.74 | 130.67 | 753 | n/a |
| Sep | 130.60 | 130.61 | | 130.60 | 130.60 | 3 | n/a |

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

**Ecu**

**ECU BOND FUTURES (MATIF) ECU100,000**

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 103.76 | 103.74 | +0.16 | 103.78 | 103.68 | 1,175 | 5,964 |

### US CORPORATE BONDS

| Mar 23 | Red date | Coupon | S&P Rating | Bid price | Bid yield | Day's chge yield | Mth's chge yield | Sprd vs Bonds |
|---|---|---|---|---|---|---|---|---|
| **UTILITIES** | | | | | | | | |
| Pac Bell | 07/02 | 7.25 | AA- | 104.4686 | 6.04 | -0.01 | -0.07 | +0.46 |
| NY Tel | 05/25 | 7.00 | A+ | 98.8233 | 7.01 | -0.01 | -0.01 | +1.13 |
| CWE | 09/08 | 8.00 | BBB | 111.1980 | 6.47 | - | -0.15 | +0.84 |
| **FINANCIALS** | | | | | | | | |
| GECC | 05/07 | 8.75 | AAA | 118.0821 | 6.13 | -0.01 | +0.02 | +0.51 |
| Banc One | 08/02 | 7.25 | A+ | 104.1285 | 6.15 | -0.01 | +0.08 | +0.59 |
| US West | 01/07 | 7.30 | BBB+ | 105.7531 | 6.43 | - | +0.02 | +0.80 |
| **INDUSTRIALS** | | | | | | | | |
| RMX Tech | 04/00 | 6.25 | BBB | 100.0066 | 6.14 | -0.02 | -0.02 | +0.14 |
| Wal Mart | 05/02 | 6.75 | AA | 102.5620 | 6.03 | -0.01 | +0.16 | +0.47 |
| Dayton Hud | 06/21 | 9.70 | BBB+ | 132.2943 | 6.89 | - | - | +1.01 |
| **AGENCIES** | | | | | | | | |
| FHLMC | 04/07 | 7.14 | N/A | 108.5668 | 5.90 | - | -0.01 | +0.27 |
| SLMA | 03/00 | 7.50 | N/A | 103.2836 | 5.69 | - | +0.10 | +0.19 |
| FNMA | 02/16 | 8.95 | N/A | 131.6808 | 6.16 | - | -0.03 | +0.28 |
| FNMA | 06/06 | 8.95 | N/A | 128.8251 | 5.83 | -0.07 | -0.07 | +0.26 |
| **YANKEE BONDS** | | | | | | | | |
| Stora Cont | 02/01 | 8.8 | B | 101.8753 | 0.00 | - | - | - |
| AK Stl | 12/01 | 9.13 | BB- | 197.1250 | 0.00 | - | - | - |
| Pacaba | 06/04 | 10.75 | B- | 98.5000 | 0.00 | - | - | - |

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information

### US INTEREST RATES

| Latest | | Treasury Bills and Bond Yields | | | |
|---|---|---|---|---|---|
| Prime rate | 8½ | One month | 5.04 | Two year | 5.53 |
| Broker loan rate | 7¼ | Two month | 5.06 | Three year | 5.53 |
| Fed.funds | 5½ | Three month | 5.16 | Five year | 5.54 |
| Fed.funds at intervention | - | Six month | 5.21 | 10-year | 5.57 |
| | | One year | 5.35 | 30-year | 5.87 |

### INTERNATIONAL BONDS

| Mar 24 | Red date | Coupon | S&P Rating | Bid price | Bid yield | Day's chge yield | Mth's chge yield | Spread vs Govts |
|---|---|---|---|---|---|---|---|---|
| **EURO DM** | | | | | | | | |
| EIB | 02/07 | 5.750 | AAA | 108.0700 | 4.89 | -0.02 | -0.06 | +0.12 |
| Spain | 01/07 | 5.750 | AA | 108.0600 | 4.84 | -0.02 | -0.06 | +0.17 |
| Philip Morris | 03/04 | 5.375 | A | 101.8600 | 4.98 | -0.02 | -0.11 | +0.48 |
| Finland FRN | 09/02 | 3.570 | - | 100.0854 | 3.91 | -0.03 | +0.01 | +0.29 |
| **EURO FFR** | | | | | | | | |
| EIB | 01/04 | 5.500 | AAA | 104.2900 | 4.64 | -0.02 | -0.04 | +0.12 |
| Abbey Nat | 02/04 | 6.000 | AA | 106.2100 | 4.76 | -0.01 | -0.04 | +0.24 |
| Cred Foncier | 02/04 | 9.125 | A | 120.7800 | 4.87 | -0.03 | -0.11 | +0.45 |
| SOF FRN | 12/01 | 3.625 | AA- | 99.9983 | 4.11 | -0.02 | -0.03 | -0.02 |
| **EURO LIRA** | | | | | | | | |
| EIB | 02/07 | 7.000 | AAA | 113.1300 | 5.12 | -0.02 | -0.14 | +0.13 |
| Abbey Nat | 02/02 | 6.800 | AA | 106.9000 | 4.81 | -0.02 | -0.14 | +0.24 |
| Walt Disney | 03/03 | 6.625 | A | 107.8000 | 4.84 | -0.05 | -0.14 | +0.44 |
| EIB FRN | 03/01 | 5.336 | AAA | 100.2509 | 4.31 | - | -0.24 | -0.15 |
| **EURO £** | | | | | | | | |
| EIB | 12/07 | 7.625 | AAA | 110.8311 | 6.13 | -0.05 | -0.13 | +0.20 |
| Dresdner Bk | 12/07 | 7.750 | AA+ | 107.4805 | 6.67 | -0.05 | -0.14 | +0.74 |
| British Gas | 03/08 | 7.625 | A+ | 101.1139 | 7.01 | -0.03 | -0.02 | +0.35 |
| Abbey Nat FRN | 02/02 | 7.713 | AA | 100.0341 | 6.16 | -0.02 | -0.05 | -0.16 |
| **EURO US$** | | | | | | | | |
| EIB | 04/07 | 7.250 | AAA | 108.7565 | 5.97 | -0.01 | -0.05 | +0.40 |
| ABN Amro | 06/07 | 7.125 | AA- | 105.4082 | 6.34 | -0.01 | -0.01 | +0.77 |
| Quebec | 01/07 | 7.000 | A+ | 104.4721 | 6.33 | -0.01 | -0.04 | +0.76 |
| Citicorp FRN | 02/04 | 5.734 | A+ | 99.5220 | 5.83 | -0.01 | -0.22 | +0.28 |
| **EURO YEN** | | | | | | | | |
| Bayer L-Bk | 08/04 | 9.500 | AAA | 119.7849 | 5.70 | -0.01 | -0.04 | +0.27 |
| Toronto | 09/04 | 6.500 | AA | 114.6286 | 5.82 | -0.01 | -0.07 | +0.19 |
| Bell Canada | 07/06 | 10.625 | A+ | 130.1922 | 5.51 | -0.01 | -0.13 | +1.02 |
| Deutsche B FRN | 09/02 | 5.875 | AAA | 101.8210 | 6.46 | -0.01 | +0.03 | +0.13 |
| **EURO YEN** | | | | | | | | |
| World Bank | 03/02 | 5.250 | AAA | 118.6739 | 0.57 | +0.01 | -0.05 | +0.15 |
| Spain | 03/02 | 5.750 | AA | 118.2500 | 1.05 | +0.02 | -0.09 | +0.22 |
| Cred Foncier | 06/02 | 4.750 | A | 113.4477 | 1.54 | +0.01 | -0.10 | +0.72 |
| Italy FRN | 07/03 | 0.797 | AA | 100.3310 | 0.18 | - | -0.15 | -0.05 |

London closing. Standard & Poor's ratings. Yields: Local market standard/Annualised basis. Source: Interactive Data/FT Information

### UK BONDS

**FTSE Actuaries Govt. Securities**

| Price indices UK Gilts | Tue Mar 24 | Day's change % | Mon Mar 23 | Accrued interest | xd adj. ytd |
|---|---|---|---|---|---|
| 1 Up to 5 years (19) | 113.85 | 0.08 | 113.77 | 1.31 | 2.73 |
| 2 5-15 years (20) | 163.27 | 0.14 | 163.04 | 3.04 | 1.70 |
| 3 Over 15 years (6) | 201.75 | 0.28 | 201.22 | 2.71 | 1.99 |
| 4 Irredeemables (4) | 253.05 | 0.41 | 252.05 | 3.61 | 1.60 |
| 5 All stocks (49) | 195.12 | 0.15 | 184.89 | 2.56 | 2.26 |
| **Index-linked** | | | | | |
| 6 Up to 5 years (2) | 214.82 | 0.04 | 214.54 | 0.74 | 2.24 |
| 7 Over 5 years (10) | 222.20 | 0.10 | 221.98 | 1.35 | 1.85 |
| 8 All stocks (12) | 220.33 | 0.09 | 220.13 | 1.31 | 1.88 |

**UK Indices**

| | Low coupon yield Mar 24 | Mar 23 | Yr. ago | Medium coupon yield Mar 24 | Mar 23 | Yr. ago | High coupon yield Mar 24 | Mar 23 | Yr. ago |
|---|---|---|---|---|---|---|---|---|---|
| Up to 5 yrs | 6.11 | 6.13 | 7.13 | 6.20 | 6.22 | 7.19 | 6.21 | 6.24 | 7.23 |
| 15 yrs | 5.85 | 5.87 | 7.61 | 5.88 | 5.91 | 7.61 | 5.98 | 6.01 | 7.63 |
| 20 yrs | 5.85 | 5.87 | 7.69 | 5.87 | 5.89 | 7.54 | 5.98 | 6.00 | 7.54 |
| Irred.† | 5.86 | 6.00 | 7.77 | | | | | | |

| | Inflation 5% Mar 24 | Mar 23 | Yr. ago | Inflation 10% Mar 24 | Mar 23 | Yr. ago |
|---|---|---|---|---|---|---|
| Up to 5 yrs | 2.77 | 2.78 | 3.25 | 1.96 | 1.96 | 2.59 |
| Over 5 yrs | 2.86 | 2.86 | 3.54 | 2.66 | 2.67 | 3.36 |

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

**FT Fixed Interest Indices**

| | Mar 24 | Mar 23 | Mar 20 | Mar 19 | Mar 18 | Yr ago | High* | Low* |
|---|---|---|---|---|---|---|---|---|
| Govt. Secs. (UK) | 104.39 | 104.13 | 104.19 | 103.80 | 104.22 | 94.11 | 104.31 | 93.31 |
| Fixed Interest | 140.61 | 140.58 | 140.60 | 140.88 | 140.98 | 117.69 | 140.98 | 115.32 |

* for 1997/98. Government Securities high since compilation: 140.88 (18/03/98), low 49.18 (03/01/75). Fixed Interest high since compilation: 140.98 (18/03/98), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

### UK GILTS PRICES

[illegible]

**Other Fixed Interest**

[illegible]

CURRENCIES & MONEY

# Few fears for market in Euro report

MARKETS REPORT

By Richard Adams and Clay Harris

The currency markets were on hold yesterday, awaiting the publication today of the European Monetary Institute's report on economic and monetary union.

The report, to be published this morning, will make recommendations on the efforts towards convergence made by aspiring members of the European single currency. But analysts said there was only a slim chance the report would have a dramatic impact.

"It is quite clear, from what is coming out of the EMI, that they will bark but they won't bite," said Alison Cottrell, an international economist at Paine Webber in London.

Ahead of the report, the D-Mark was marginally weaker against the dollar and sterling, although levels were little changed from the end of European trading hours on Monday.

The dollar stayed trapped in its ranges around Y130 against the yen, as the market also awaited another economic stimulus package out of Tokyo this week.

Sterling remained above Y218.4 in London. Dealers reported the cross-trade becoming a popular alternative to dollar-yen trades, as it carried a lower risk of attracting intervention by Japanese authorities.

■ Japanese officials again hinted the Bank of Japan may intervene to support the yen, which helped prop up the currency and outweigh disappointment that the economic stimulus package will not include income tax cuts, traders said.

Haruhiko Kuroda, a senior Japanese Finance Ministry official, said overnight the yen was too weak and that Japan would take appropriate measures to combat its weakness.

Masaru Hayami, the Bank of Japan's new governor, said he wondered if the current weakness of the yen was appropriate, given the size of Japan's current account surplus.

Meanwhile, the ruling Liberal Democratic Party is considering amending the fiscal structure reform law to remove legal obstacles to large income tax cuts.

■ Capital outflows from Japan were likely to show a "considerable increase" after relaxation of foreign exchange rules took effect next week, a former senior Ministry of Finance official said. Toyoo Gyohten, now president of the Institute for International Monetary Affairs, said this could exert "some downward pressure on the yen's exchange rate."

He cautioned, however, that it was "dangerous to overstate the amount of additional outflow". Although Japanese investors wanted higher yields, they would be wary of exposing themselves to higher levels of exchange-rate risk.

Speaking in London, Mr Gyohten said: "The yen and sterling will have to bear the main burden of keeping stable relationships among the four major currencies" once the euro was introduced. European and US authorities were likely to take a benign view of the external value of their currencies.

The US was unlikely to be party to any explicit agreement for a more stable yen-dollar rate, even though that would be in the interest of other Asian countries, because "the market may take it as accepting a weaker dollar," Mr Gyohten said.

The dollar continues to show a remarkable degree of stability against the yen, ahead of Japan's financial deregulation, and remains range-bound around Y130.

■ A harshly critical EMI report on the progress toward Emu has the potential for derailing the entire process. An objection to one or more likely members would cause problems when Germany's upper house of parliament votes on the project next month.

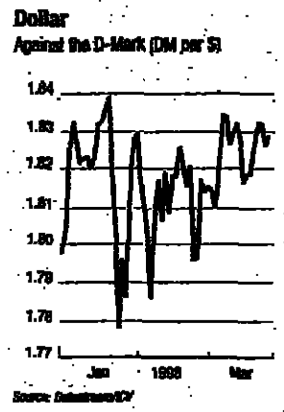
But a much more likely outcome is "a tremendous anti-climax," according to Alison Cottrell at Paine Webber, despite criticisms the report may have about individual countries' convergence paths.

"These guys have to sound stern – it's their job," Ms Cottrell said.

The report will examine the progress of each country according to the Maastricht criteria, as well as other areas, such as the compliance of national legislation.

Dollar

Against the D-Mark (DM per $)




Source: Datastream/ICV

■ POUND IN NEW YORK

| Mar 24 | —Latest— | — Prev. close — |
|---|---|---|
| £ spot | 1.6755 | 1.6700 |
| 1 mth | 1.6729 | 1.6763 |
| 3 mth | 1.6681 | 1.6716 |
| 1 yr | 1.6493 | 1.6526 |

■ OTHER CURRENCIES

| Mar 24 | £ | $ |
|---|---|---|
| Czech Rp | 56.9920 - 57.0947 | 34.0210 - 34.0620 |
| Hungary | 353.853 - 354.148 | 211.230 - 211.280 |
| Iran | 5026.60 - 5025.60 | 3000.00 - 3009.00 |
| Kuwait | 0.5114 - 0.5119 | 0.3053 - 0.3054 |
| Poland | [illegible] | [illegible] |
| Russia | [illegible] | [illegible] |
| UAE | 6.1525 - 6.1593 | 3.6727 - 3.6731 |

## POUND SPOT FORWARD AGAINST THE POUND

| Mar 24 | | Closing mid-point | Change on day | Bid/offer spread | Day's mid high | low | One month Rate | %PA | Three months Rate | %PA | One year Rate | %PA | Bank of Eng. Index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | | | | | | | | | | | | | |
| Austria | (Sch) | 21.5675 | +0.0012 | 551 - 799 | 21.5872 | 21.4950 | 21.4857 | 4.1 | 21.3547 | 3.9 | 20.8365 | 3.4 | 102.3 |
| Belgium | (BFr) | 63.2674 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Denmark | (DKr) | 11.5825 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Finland | (FM) | 9.3001 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| France | (FFr) | 10.2721 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Germany | (DM) | 3.0658 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Greece | (Dr) | 536.442 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Ireland | (I£) | 1.2206 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Italy | (L) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Luxembourg | (LFr) | 63.2674 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Netherlands | (Fl) | 3.4558 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Norway | (NKr) | 12.6833 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Portugal | (Es) | 313.825 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Spain | (Pta) | 260.010 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Sweden | (SKr) | 13.2508 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Switzerland | (SFr) | 2.4960 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| UK | (£) | - | - | - | - | - | - | - | - | - | - | - | [illegible] |
| Ecu | - | 1.5434 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - |
| SDR† | - | [illegible] | - | - | - | - | - | - | - | - | - | - | - |
| **Americas** | | | | | | | | | | | | | |
| Argentina | (Peso) | 1.6755 | [illegible] | [illegible] | [illegible] | [illegible] | - | - | - | - | - | - | - |
| Brazil | (R$) | 1.9012 | [illegible] | [illegible] | [illegible] | [illegible] | - | - | - | - | - | - | - |
| Canada | (C$) | 2.3795 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Mexico | (New Peso) | 14.3046 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - |
| USA | ($) | 1.6757 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| **Pacific/Middle East/Africa** | | | | | | | | | | | | | |
| Australia | (A$) | 2.4950 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Hong Kong | (HK$) | 12.9825 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - |
| India | (Rs) | 66.2321 | [illegible] | [illegible] | [illegible] | [illegible] | - | - | - | - | - | - | - |
| Israel | (Shk) | 6.0215 | [illegible] | [illegible] | [illegible] | [illegible] | - | - | - | - | - | - | - |
| Japan | (Y) | 218.436 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Malaysia | (M$) | 6.1230 | [illegible] | [illegible] | [illegible] | [illegible] | - | - | - | - | - | - | - |
| New Zealand | (NZ$) | 2.9751 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - |
| Philippines | (Peso) | 62.2524 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - |
| Saudi Arabia | (SR) | 6.2852 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - |
| Singapore | (S$) | 2.6979 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - |
| South Africa | (R) | 8.3374 | -0.0142 | 324 - 424 | 8.3536 | 8.3240 | 8.384 | -6.7 | 8.4588 | -5.8 | 8.7851 | -5.4 | - |
| South Korea | (Won) | 2306.60 | +14.55 | 172 - 148 | 2391.69 | 2299.17 | - | - | - | - | - | - | - |
| Taiwan | (T$) | 54.7259 | -0.2112 | 003 - 514 | 54.8706 | 54.6959 | 54.6928 | 0.7 | 54.6504 | 0.6 | 54.5928 | 0.2 | - |
| Thailand | (Bt) | 65.0215 | +0.4884 | 465 - 964 | 65.7150 | 64.3320 | 65.3984 | -7.0 | 66.135 | -6.9 | 69.3618 | -6.7 | - |

† Rates for Mar 23. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. The exchange rates printed in this table are also available on the internet at http://www.FT.com

## DOLLAR SPOT FORWARD AGAINST THE DOLLAR

| Mar 24 | | Closing mid-point | Change on day | Bid/offer spread | Day's mid high | low | One month Rate | %PA | Three months Rate | %PA | One year Rate | %PA | J.P. Morgan index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | | | | | | | | | | | | | |
| Austria | (Sch) | 12.8708 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Belgium | (BFr) | 37.7200 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Denmark | (DKr) | 6.8717 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Finland | (FM) | 5.5500 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| France | (FFr) | 6.1300 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Germany | (DM) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Greece | (Dr) | 320.130 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Ireland | (I£) | 1.3720 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Italy | (L) | 1801.65 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Luxembourg | (LFr) | 37.7200 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Netherlands | (Fl) | 2.0611 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Norway | (NKr) | 7.5690 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Portugal | (Es) | 187.280 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Spain | (Pta) | 155.165 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Sweden | (SKr) | 7.9335 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Switzerland | (SFr) | 1.4913 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| UK | (£) | 1.6757 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Ecu | - | 1.0858 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - |
| SDR† | - | [illegible] | - | - | - | - | - | - | - | - | - | - | - |
| **Americas** | | | | | | | | | | | | | |
| Argentina | (Peso) | 0.9999 | [illegible] | [illegible] | [illegible] | [illegible] | - | - | - | - | - | - | - |
| Brazil | (R$) | 1.1346 | [illegible] | [illegible] | [illegible] | [illegible] | - | - | - | - | - | - | - |
| Canada | (C$) | 1.4201 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Mexico | (New Peso) | 8.5365 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - |
| USA | ($) | - | - | - | - | - | - | - | - | - | - | - | [illegible] |
| **Pacific/Middle East/Africa** | | | | | | | | | | | | | |
| Australia | (A$) | 1.4895 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Hong Kong | (HK$) | 7.7475 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - |
| India | (Rs) | 39.3250 | [illegible] | [illegible] | [illegible] | [illegible] | - | - | - | - | - | - | - |
| Israel | (Shk) | 3.5934 | [illegible] | [illegible] | [illegible] | [illegible] | - | - | - | - | - | - | - |
| Japan | (Y) | 130.355 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Malaysia | (M$) | 3.6540 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - |
| New Zealand | (NZ$) | 1.7754 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - |
| Philippines | (Peso) | 37.1500 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - |
| Saudi Arabia | (SR) | 3.7506 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - |
| Singapore | (S$) | 1.6100 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - |
| South Africa | (R) | 4.9755 | -0.0055 | 740 - 770 | 4.9775 | 4.9735 | 5.0109 | -8.5 | 5.0704 | -7.6 | 5.3282 | -7.0 | - |
| South Korea | (Won) | 1376.50 | +9.5 | 400 - 900 | 1426.00 | 1371.00 | - | - | - | - | - | - | - |
| Taiwan | (T$) | 32.6585 | -0.1065 | 530 - 640 | 32.7100 | 32.6430 | 32.6885 | -1.1 | 32.7585 | -1.2 | 33.0985 | -1.3 | - |
| Thailand | (Bt) | 38.8025 | +0.3025 | 500 - 550 | 39.2000 | 38.3500 | 38.0875 | -8.8 | 38.8425 | -8.7 | 42.0525 | -8.4 | - |

† SDR rate per $ for Mar 23. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Mar 23: Base average 1990=100. Bid, offer, mid spot rates and forward rates in both this and the Pound table are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T.
The exchange rates printed in this table are also available on the internet at http://www.FT.com.

## WORLD INTEREST RATES

### MONEY RATES

| Mar 24 | Over night | One month | Three mths | Six mths | One year | Lomb. inter. | Dis. rate | Repo rate |
|---|---|---|---|---|---|---|---|---|
| Belgium | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 6.00 | 2.75 | - |
| France | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 4.50 | - | 3.30 |
| Germany | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 4.50 | 2.50 | 3.30 |
| Ireland | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | - | 6.75 |
| Italy | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 7.00 | 5.50 | 5.63 |
| Netherlands | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 2.75 | 3.30 |
| Switzerland | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 1.00 | - |
| US | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 5.00 | - |
| Japan | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 0.50 | - |

■ $ LIBOR BBA London

| | | | | | |
|---|---|---|---|---|---|
| Interbank Fixing | - | [illegible] | [illegible] | [illegible] | [illegible] |
| US Dollar CDs | - | 5.50 | 5.51 | 5.54 | 5.60 |
| SDR Linked Ds | - | [illegible] | [illegible] | [illegible] | [illegible] |
| ECU Linked Ds | - | [illegible] | [illegible] | [illegible] | [illegible] |

[illegible]

### EURO CURRENCY INTEREST RATES

| Mar 24 | Short term | 7 days notice | One month | Three months | Six months | One year |
|---|---|---|---|---|---|---|
| Belgian Franc | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Danish Krone | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| German Mark | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Dutch Guilder | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| French Franc | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Portuguese Esc. | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Spanish Peseta | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Sterling | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Swiss Franc | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Canadian Dollar | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| US Dollar | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Italian Lira | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Japanese Yen | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Asian $Sing | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 96.300 | 96.315 | +0.025 | 96.315 | 96.295 | 7,509 | 73,432 |
| Sep | 96.170 | 96.180 | +0.025 | 96.180 | 96.170 | 2,857 | 31,032 |

■ THREE MONTH EUROMARK FUTURES (LIFFE) DM1m points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 96.330 | 96.345 | +0.015 | 96.350 | 96.330 | 36421 | 422592 |
| Sep | 96.190 | 96.205 | +0.020 | 96.210 | 96.190 | 35796 | 351042 |
| Dec | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Mar | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

■ ONE MONTH EUROMARK FUTURES (LIFFE) DM5m points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Apr | - | 96.46 | +0.02 | - | - | 0 | 200 |
| May | - | 96.46 | +0.02 | - | - | - | - |

■ THREE MONTH EUROLIRA FUTURES (LIFFE) L1000m points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Sep | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Dec | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Mar | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Sep | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Dec | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Mar | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Sep | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Dec | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Sep | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Dec | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Mar | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

| Strike Price | CALLS Jun | Sep | Dec | PUTS Jun | Sep | Dec |
|---|---|---|---|---|---|---|
| 9525 | 0.27 | 0.62 | 0.71 | 0.12 | 0.04 | 0.05 |
| 9550 | 0.13 | 0.41 | 0.49 | 0.23 | 0.08 | 0.08 |
| 9575 | 0.05 | 0.23 | 0.29 | 0.40 | 0.15 | 0.13 |

Est. vol. total, Calls 15526 Puts 16725. Previous day's open int., Calls 289522 Puts 268152

## CROSS RATES AND DERIVATIVES

### EXCHANGE CROSS RATES

| Mar 24 | | BFr | DKr | FFr | DM | I£ | L | Fl | NKr | Es | Pta | SKr | SFr | £ | C$ | $ | Y | Ecu |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Belgium | (BFr) | 100 | 18.48 | 16.25 | 4.850 | 1.931 | 4776 | 5.464 | 20.07 | 496.5 | 411.4 | 21.03 | 3.954 | 1.582 | 3.765 | 2.651 | 345.6 | 2.442 |
| Denmark | (DKr) | 54.10 | 10 | 8.793 | 2.624 | 1.045 | 2584 | 2.956 | 10.86 | 268.6 | 222.6 | 11.38 | 2.139 | 0.856 | 2.037 | 1.434 | 187.0 | 1.321 |
| France | (FFr) | 61.53 | 11.37 | 10 | 2.985 | 1.188 | 2939 | 3.362 | 12.35 | 305.5 | 253.1 | 12.94 | 2.433 | 0.974 | 2.317 | 1.631 | 212.7 | 1.502 |
| Germany | (DM) | 20.62 | 3.811 | 3.351 | 1 | 0.398 | 984.8 | 1.127 | 4.137 | 102.4 | 84.81 | 4.336 | 0.815 | 0.326 | 0.776 | 0.547 | 71.25 | 0.503 |
| Ireland | (I£) | 51.79 | 9.572 | 8.416 | 2.512 | 1 | 2474 | 2.830 | 10.39 | 257.1 | 213.0 | 10.89 | 2.048 | 0.819 | 1.950 | 1.373 | 179.0 | 1.265 |
| Italy | (L) | 2.094 | 0.387 | 0.340 | 0.102 | 0.040 | 100 | 0.114 | 0.420 | 10.39 | 8.612 | 0.440 | 0.083 | 0.033 | 0.079 | 0.056 | 7.235 | 0.051 |
| Netherlands | (Fl) | 18.30 | 3.383 | 2.974 | 0.888 | 0.353 | 874.1 | 1 | 3.672 | 90.86 | 75.28 | 3.849 | 0.724 | 0.290 | 0.689 | 0.485 | 63.25 | 0.447 |
| Norway | (NKr) | 49.83 | 9.211 | 8.099 | 2.417 | 0.962 | 2380 | 2.723 | 10 | 247.4 | 205.0 | 10.48 | 1.970 | 0.788 | 1.876 | 1.321 | 172.2 | 1.217 |
| Portugal | (Es) | 20.14 | 3.723 | 3.273 | 0.977 | 0.389 | 962.0 | 1.101 | 4.042 | 100 | 82.85 | 4.236 | 0.796 | 0.319 | 0.758 | 0.534 | 69.60 | 0.492 |
| Spain | (Pta) | 24.31 | 4.493 | 3.951 | 1.179 | 0.469 | 1161 | 1.328 | 4.878 | 120.7 | 100 | 5.113 | 0.961 | 0.385 | 0.915 | 0.644 | 84.01 | 0.594 |
| Sweden | (SKr) | 47.55 | 8.788 | 7.727 | 2.306 | 0.918 | 2271 | 2.598 | 9.541 | 236.1 | 195.6 | 10 | 1.880 | 0.752 | 1.790 | 1.261 | 164.3 | 1.161 |
| Switzerland | (SFr) | 25.29 | 4.675 | 4.111 | 1.227 | 0.488 | 1208 | 1.382 | 5.075 | 125.6 | 104.0 | 5.320 | 1 | 0.400 | 0.952 | 0.671 | 87.41 | 0.618 |
| UK | (£) | 63.21 | 11.68 | 10.27 | 3.066 | 1.220 | 3019 | 3.454 | 12.68 | 313.8 | 260.0 | 13.29 | 2.499 | 1 | 2.380 | 1.676 | 218.4 | 1.543 |
| Canada | (C$) | 26.56 | 4.909 | 4.317 | 1.288 | 0.513 | 1269 | 1.451 | 5.330 | 131.9 | 109.3 | 5.586 | 1.050 | 0.420 | 1 | 0.704 | 91.79 | 0.649 |
| USA | ($) | 37.72 | 6.972 | 6.130 | 1.830 | 0.728 | 1802 | 2.061 | 7.569 | 187.3 | 155.2 | 7.933 | 1.491 | 0.597 | 1.420 | 1 | 130.4 | 0.921 |
| Japan | (Y) | 28.94 | 5.348 | 4.703 | 1.403 | 0.559 | 1382 | 1.581 | 5.806 | 143.7 | 119.0 | 6.086 | 1.144 | 0.458 | 1.089 | 0.767 | 100 | 0.707 |
| Ecu | - | 40.96 | 7.570 | 6.656 | 1.986 | 0.791 | 1956 | 2.238 | 8.218 | 203.3 | 168.5 | 8.614 | 1.619 | 0.648 | 1.542 | 1.086 | 141.5 | 1 |

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

| | Open | Latest | Change | High | Low | Est. vol | Open Int. |
|---|---|---|---|---|---|---|---|
| Jun | 0.5504 | 0.5502 | -0.0002 | 0.5508 | 0.5492 | 11,121 | 72,424 |
| Sep | - | 0.5528 | -0.0003 | - | 0.5528 | 7 | 1,857 |
| Dec | - | 0.5557 | - | - | - | 2 | 21 |

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

| | Open | Latest | Change | High | Low | Est. vol | Open Int. |
|---|---|---|---|---|---|---|---|
| Jun | 0.6787 | 0.6786 | -0.0009 | 0.6791 | 0.6769 | 14,341 | 62,375 |
| Sep | - | 0.6851 | -0.0013 | - | 0.6851 | 11 | 1,232 |
| Dec | - | 0.6922 | -0.0010 | - | 0.6922 | 3 | 13 |

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

| | Open | Latest | Change | High | Low | Est. vol | Open Int. |
|---|---|---|---|---|---|---|---|
| Jun | 0.7756 | 0.7772 | +0.0018 | 0.7795 | 0.7735 | 8,140 | 79,702 |
| Sep | - | 0.7870 | +0.0016 | 0.7870 | - | 38 | 1,293 |
| Dec | - | 0.7955 | - | - | - | 5 | 118 |

■ STERLING FUTURES (IMM) £62,500 per £

| | Open | Latest | Change | High | Low | Est. vol | Open Int. |
|---|---|---|---|---|---|---|---|
| Jun | 1.6710 | 1.6668 | -0.0036 | 1.6724 | 1.6654 | 8,438 | 40,404 |
| Sep | - | 1.6590 | -0.0046 | - | 1.6590 | 33 | 611 |
| Dec | - | 1.6520 | -0.0048 | - | 1.6520 | 17 | 13 |

## UK INTEREST RATES

### LONDON MONEY RATES

| Mar 24 | Over-night | 7 days notice | One month | Three months | Six months | One year |
|---|---|---|---|---|---|---|
| Interbank Sterling | 7½ - 6¾ | 7¾ - 7¼ | 7½ - 7⅜ | 7⅝ - 7¼ | 7⅞ - 7¾ | 7⅞ - 7½ |
| Sterling CDs | - | - | 7⅛ - 7¼ | 7⅝ - 7⅝ | 7⅝ - 7⅝ | 7⅝ - 7⅝ |
| Treasury Bills | - | - | 7¼ - 7⅛ | 7⅛ - 7⅛ | - | - |
| Bank Bills | - | - | 7⅛ - 7⅛ | 7⅛ - 7¼ | 7⅝ - 7⅛ | - |
| Local authority deps. | 7⅛ - 7 | 7⅛ - 7 | 7⅝ - 7⅛ | 7½ - 7⅝ | 7½ - 7⅝ | 7½ - 7⅝ |
| Discount Market deps | 7⅛ - 7 | 7⅛ - 7⅛ | - | - | - | - |

UK clearing bank base lending rate 7¼ per cent from Nov 6, 1997

| | Up to 1 month | 1-3 month | 3-6 months | 6-9 months | 9-12 months |
|---|---|---|---|---|---|
| Certs of Tax dep. (£100,000) | 2½ | 5½ | 5 | 5 | 4½ |

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc. Ave. tender rate of discount on Mar 20, 6.9178pc. ECGD fixed rate Stlg. Export Finance. Make up day Feb 27, 1998. Agreed rate for period Mar 25, 1998 to Apr 25, 1998, Scheme III 6.77pc. Reference rate for period Jan 31, 1998 to Feb 27, 1998, Schemes IV & V 7.532pc. Finance House Base Rate 8pc from Mar 1, 1998.

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 92.52 | 92.52 | +0.01 | 92.53 | 92.51 | 7382 | 156097 |
| Sep | 92.66 | 92.65 | - | 92.67 | 92.65 | 6109 | 108117 |
| Dec | 92.82 | 92.82 | +0.02 | 92.83 | 92.80 | 11559 | 147125 |
| Mar | 93.01 | 93.02 | +0.03 | 93.03 | 93.00 | 12132 | 77643 |
| Jun | 93.20 | 93.20 | +0.02 | 93.21 | 93.19 | 5390 | 78564 |

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

| Strike Price | CALLS Jun | Sep | Dec | PUTS Jun | Sep | Dec |
|---|---|---|---|---|---|---|
| 9250 | 0.10 | 0.25 | 0.43 | 0.08 | 0.10 | 0.11 |
| 9275 | 0.02 | 0.11 | 0.27 | 0.25 | 0.21 | 0.20 |
| 9300 | 0 | 0.04 | 0.15 | 0.48 | 0.39 | 0.33 |

Est. vol. total, Calls 15135 Puts 14030. Previous day's open int., Calls 249056 Puts 209924

### EMS EUROPEAN CURRENCY UNIT RATES

| Mar 24 | Ecu cen. rates | Rate against Ecu | Change on day | % +/- from cen. rate | % spread v weakest | Div. ind. |
|---|---|---|---|---|---|---|
| Greece | 357.000 | 347.504 | -0.656 | -2.66 | 3.01 | 18 |
| Ireland | 0.796244 | 0.789929 | +0.001261 | -0.79 | 1.08 | 5 |
| Italy | 1957.61 | 1952.09 | -0.22 | -0.28 | 0.56 | 2 |
| Spain | 168.220 | 168.155 | +0.026 | -0.04 | 0.31 | 0 |
| Finland | 6.01125 | 6.01374 | -0.00551 | 0.04 | 0.23 | -0 |
| Portugal | 202.692 | 202.976 | +0.021 | 0.14 | 0.13 | -1 |
| France | 6.63186 | 6.64386 | -0.00197 | 0.18 | 0.09 | -2 |
| Denmark | 7.54257 | 7.55623 | -0.00211 | 0.18 | 0.09 | -1 |
| Austria | 13.9119 | 13.9464 | -0.004 | 0.25 | 0.03 | -2 |
| Germany | 1.97738 | 1.98234 | -0.00059 | 0.25 | 0.02 | -2 |
| Belgium | 40.7844 | 40.8916 | -0.0081 | 0.26 | 0.01 | -2 |
| Netherlands | 2.22799 | 2.23411 | -0.00082 | 0.27 | 0.00 | -2 |
| NON ERM MEMBERS | | | | | | |
| UK | 0.653844 | 0.647523 | +0.000979 | -0.94 | 1.22 | - |

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu: a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. 16/3/98: Drachma joined ERM & Punt revalued by 3%. Other central rates adjusted. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

| Strike Price | CALLS Apr | May | Jun | PUTS Apr | May | Jun |
|---|---|---|---|---|---|---|
| 1.660 | 2.04 | 2.70 | 3.17 | 0.50 | 1.54 | 2.15 |
| 1.670 | 1.39 | 2.18 | 2.63 | 0.65 | 1.92 | 2.57 |
| 1.680 | 0.88 | 1.71 | 2.21 | 1.36 | 2.46 | 3.12 |

Previous day's vol., Calls 263 Puts 8 . Prev. day's open int., Calls 13,581 Puts 14,523

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

| Strike Price | CALLS Apr | May | Jun | PUTS Apr | May | Jun |
|---|---|---|---|---|---|---|
| 0.540 | 0.91 | 1.25 | 1.49 | 0.12 | 0.35 | 0.51 |
| 0.545 | 0.56 | 0.93 | 1.18 | 0.28 | 0.52 | 0.73 |
| 0.550 | 0.30 | 0.66 | 0.91 | 0.49 | 0.76 | 0.93 |

Previous day's vol., Calls - Puts 42 . Prev. day's open int., Calls 5,889 Puts 17,800

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 94.35 | 94.34 | -0.01 | 94.35 | 94.34 | 30,868 | 464,888 |
| Sep | 94.34 | 94.33 | -0.01 | 94.35 | 94.33 | 33,980 | 376,526 |
| Dec | 94.26 | 94.26 | - | 94.27 | 94.25 | 42,165 | 286,950 |

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 95.12 | 95.12 | - | 95.12 | 95.11 | 91 | 4,537 |
| Sep | - | 95.12 | - | - | - | 4 | 465 |
| Dec | - | 95.17 | -0.01 | - | 95.17 | 1 | 3 |

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

| Strike Price | CALLS Apr | May | Jun | Sep | PUTS Apr | May | Jun | Sep |
|---|---|---|---|---|---|---|---|---|
| 9625 | 0.105 | 0.120 | 0.130 | 0.090 | 0.010 | 0.025 | 0.035 | 0.135 |
| 9650 | 0.010 | 0.010 | 0.015 | 0.015 | 0.165 | 0.165 | 0.170 | 0.310 |
| 9675 | 0 | 0 | 0 | 0 | 0.405 | 0.405 | 0.405 | 0.545 |
| 9700 | 0 | 0 | 0 | 0 | 0.655 | 0.655 | 0.655 | 0.795 |

Est. vol. total, Calls 6066 Puts 5678. Previous day's open int., Calls 295239 Puts 343795

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

| Strike Price | CALLS Jun | Sep | Dec | PUTS Jun | Sep | Dec |
|---|---|---|---|---|---|---|
| 9875 | 0.05 | 0.06 | 0.04 | 0.25 | 0.42 | 0.60 |
| 9900 | 0.01 | 0.02 | 0.01 | 0.46 | 0.63 | 0.82 |

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 9530 Puts 3350

### BASE LENDING RATES

| | % | | % | | % |
|---|---|---|---|---|---|
| Adam & Company | 7.25 | Exeter Trust Limited | 8.25 | ●Singer & Friedlander | 7.25 |
| Allied Irish Bank (GB) | 7.25 | Financial & Gen Bank | 8.00 | ●Smith & Williamson | 7.25 |
| ●Henry Ansbacher | 7.25 | ●Robert Fleming & Co | 7.25 | Sun Banking Corp Ltd | 7.25 |
| Banco Bilbao Vizcaya | 7.25 | ●Guinness Mahon | 7.25 | TSB | 7.25 |
| Bank of Cyprus | 7.25 | Habib Bank AG Zurich | 7.25 | United Bank of Kuwait | 7.25 |
| Bank of Ireland | 7.25 | ●Hambros Bank | 7.25 | Unity Trust Bank Plc | 7.25 |
| Bank of India | 7.25 | Heritable & Gen Inv Bk | 7.25 | Whiteaway Laidlaw | 7.25 |
| Bank of Scotland | 7.25 | C. Hoare & Co | 7.25 | Yorkshire Bank | 7.25 |
| Barclays Bank | 7.25 | Hongkong & Shanghai | 7.25 | | |
| Brit Bk of Mid East | 7.25 | Investec Bank (UK) Ltd | 7.25 | | |
| ●Brown Shipley & Co Ltd | 7.25 | Julian Hodge Bank | 7.25 | | |
| Citibank NA | 7.25 | ●Leopold Joseph & Sons | 7.25 | | |
| Clydesdale Bank | 7.25 | Lloyds Bank | 7.25 | | |
| The Co-operative Bank | 7.25 | Midland Bank | 7.25 | | |
| Coutts & Co | 7.25 | NatWestminster | 7.25 | | |
| Cyprus Popular Bank | 7.25 | ●Rea Brothers | 7.25 | | |
| Duncan Lawrie | 7.25 | Royal Bk of Scotland | 7.25 | | |
| | | Scottish Widows Bank | 7.25 | | |

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# Oil falls as traders pause for breath

**MARKETS REPORT**

By Paul Solman and Kenneth Gooding

World oil prices fell yesterday after jumping more than $2 a barrel on Monday. Traders said the market was pausing for breath after reacting to the weekend deal between oil producers to cut output.

In late trading yesterday on London's International Petroleum Exchange, the bellwether Brent crude for May delivery appeared to have stabilised at around $14.65. It had closed at $15.04 on Monday compared with Friday's close of $13.22.

The price also weakened in New York. By midday on the New York Mercantile Exchange, May crude had dipped to $16.10 from $16.51 at the close on Monday.

The weekend deal in Riyadh between Saudi Arabia, Venezuela and Mexico to cut a combined 600,000 barrels a day from production encouraged other nations to follow suit.

Production cuts could total 1.7m b/d, shared among the 11 members of the Organisation of Petroleum Exporting Countries and six nations outside the organisation, though announcements are still awaited from Russia, Norway and Indonesia.

However, yesterday traders remained cautious about further gains in the oil price – some suggesting the cuts were too small to affect the long-term surplus in the market. Early last year, the price was $25 a barrel, and fears about over-supply cut it by half in only 15 months.

One unknown factor is how much Iraq will export under its oil-for-food deal with the United Nations. Nizar Hamdoon, Baghdad's ambassador to the UN, said yesterday his country's oil exports should reach $4bn per 180 days by next month. Iraq is currently exporting $3bn worth every 180 days, or about 1.3m b/d.

Palladium, already at an 18-year high, closed up a further $6 a troy ounce at $292 in London as consumers fretted about the possibility of more delays in exports from Russia, the biggest producer.

The price had earlier been "fixed" in London at $295 an ounce as traders considered the implications of President Boris Yeltsin replacing his entire government.

There have been no shipments from Russia this year and Jeremy Coombes, at Johnson Matthey, the world's biggest platinum and palladium marketing group, said: "We had been expecting Russian exports to start in April, but now obviously it will be later. A change like that is bound to paralyse decision-making in Russia for a while."

He said there were indications at the end of 1997 and the beginning of this year that Russia had sold considerable quantities of palladium and platinum in the west. However, the metal seemed to have been absorbed because supply was tightening.

Gold's price was "fixed" in London yesterday afternoon at $301.30 a troy ounce and remained above $300 at the close, when it was up $1.80 at $300.75.

Dealers suggested gold had been given a lift by weekend comments from Antonio Fazio, governor of the Bank of Italy, who said the European Central Bank's gold reserves should represent about 30 per cent of its total reserves – a higher level than had been suggested by other potential members of the ECB.

# Jump in bank finance for mining projects

By Kenneth Gooding, Mining Correspondent

Banks raised $5.79bn of debt for international mining projects last year and a further $930m in the bond market, a big increase on the $1.23bn provided in 1996.

Chase Manhattan, the biggest US commercial bank, provided nearly one-quarter of the debt, $1.36bn, to lead the field, followed by Citibank with $548m, and Dresdner Kleinwort Benson with $513m.

Most of the money was provided for projects in Australia, which absorbed $1.49bn, with Chile a close second and receiving $1.37bn. Others in the country league table included Indonesia with $783m, Argentina with $755m and Peru with $672m.

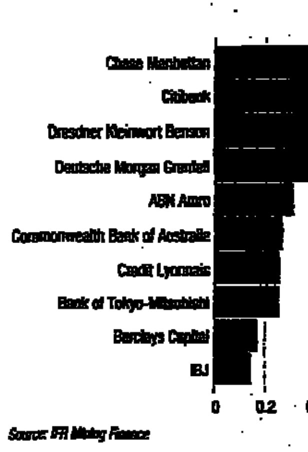
Three of the big traditional mining countries – Canada, the US and South Africa – had no projects needing new debt last year.

These are the main conclusions of a survey compiled by IFR Mining Finance magazine of non-corporate debt-raising for the mining industry, which it claims is the first of its kind.

Two important factors accounted for the big jump in the amount of debt raised, said Rod Morrison, editor of the magazine. Bank liquidity was at one of its cyclical high points in 1997; and there were a larger than usual number of mining projects raising debt.

For example, Chase's total was swollen partly by the $650m raised for the El Abra copper project in Chile (a joint venture between Cyprus Amax of the US and Codelco of Chile) and $450m for the Batu Hijau gold-copper venture in Indonesia (owned by Newmont of the US and Sumitomo of Japan).

Debt raised for mining projects 1997




Source: IFR Mining Finance

Citibank, in turn, provided $200m towards the Century Zinc project (owned by Pasminco) and $140m for Bulong, Resolute's nickel venture, both in Australia.

Big projects in which Dresdner was involved included Korea Zinc's refinery at Townsville in Australia and the Alumbrera copper-gold venture in Argentina, where North and MIM, two Australian companies, and Rio Algom of Canada, are joint owners.

Mr Morrison said debt raising has changed dramatically this year. Bank liquidity has dried up to some extent because Japanese and Korean banks are not in the market and are even selling loan assets into the secondary market.

"The global syndication market is much tighter. Deals being done are being arranged at the senior level on a club basis to reduce syndication risks," he said.

Meanwhile, lower metal prices are not encouraging new mining projects. Instead, many mining groups are involved in corporate restructuring or mergers and acquisitions and "mining financiers are involved somewhere along the line in these deals".

Investment banks have also started to use high interest bonds for mining deals and, according to Mr Morrison, "the bankers are suggesting this will be the start of something big".

Whereas there were no bonds issued for mining projects in 1996, last year some $930m of debt was raised in this way, of which $680m was for Australian ventures and the rest for projects in Peru.

*For further details contact Rod Morrison at IFR Mining Finance in London (44) (0)171 369 7570.*

# Alumina plant for east India

By Kunal Bose in Calcutta

Utkal Alumina will start constructing a 1m tonne alumina refinery at Doragurha in Orissa, eastern India, before June.

The entire production of alumina will be exported and the promoters – Norsk Hydro of Norway, Alcan of Canada, Indian Aluminium and Tata Industries, India's largest business group – will have long-term contracts with Utkal.

Norsk Hydro is the majority partner in the Rs40bn ($1bn) project with a stake of 40 per cent. The other partners each hold 20 per cent.

Vijaya Sampath, director, said the project would have a debt to equity ratio of 3:2. At some stage, the promoters will sell 25 per cent in an initial public offering.

The refinery, to be built using technology from Alcan and Alesa-Alusuisse of Switzerland, will draw bauxite from mines at Baphlimali with deposits of more than 200m tonnes.

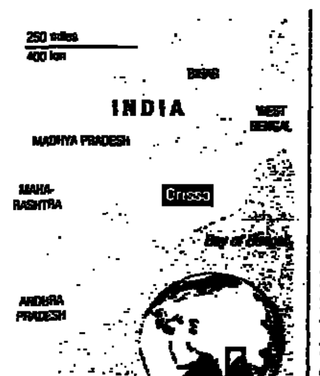
Mrs Sampath said Utkal would be among the lowest-cost producers of alumina in the world, because the deposits contained very few impurities and would only require simple processing.

"The configuration of ore bodies at Baphlimali will allow environmentally friendly and cost-effective benign mining. Moreover, the refinery will be next to bauxite deposits, eliminating transport costs," she said.

Utkal will start production in 50 months, with capacity of 1m tonnes. Once production stabilises, work will begin on doubling capacity.

The company is building a jetty at Vizag port to export alumina. It is also creating an infrastructure that can support capacity expansion of the refinery to 2m tonnes.

Orissa Mining Corporation said India had the world's fifth largest bauxite deposits, more than 3bn tonnes, and




more than half the country's deposits are in Orissa.

"The Orissa bauxite is of the best quality. This is why several other groups besides Utkal are planning to build alumina refineries in Orissa," the company said.

India plans to increase exports of alumina to 2m tonnes by 2002 from about 500,000. The promoters said the country would become one of the principal suppliers of alumina to smelters in west Asia and Africa.

Work on Utkal could have started at least a year ago but for a sustained campaign against the project by some environmental groups.

# Diamond exploration licence bids rejected

By Amy Louise Kazmin in Delhi

The Indian state of Madhya Pradesh has rejected bids from De Beers and Rio Tinto for licences to explore and mine what many believe is a diamond hot-spot.

In the latest twist to a long-running controversy over foreign participation in diamond mining in India, S. Laxminarayanan, principal secretary of the Madhya Pradesh department of mineral resources, said the bids from the global mining companies were rejected because neither De Beers nor Rio Tinto would adhere to the state's preconditions.

While most mining ventures pay royalties of between 5 per cent and 7 per cent to host governments, Madhya Pradesh is seeking a minimum 10 per cent. Investors will also have to conduct mining through a joint venture, in which the state would receive an 11 per cent unsubscribed equity stake.

Potential investors have complained that such conditions would make mining unviable. But Mr Laxminarayanan said before the rejection was announced: "If they are not willing to share the profits, we are not willing to part with the diamonds."

Rio Tinto was said to have objected to the conditions to contribute and maintain 11 per cent of the paid-up capital as equity for the state.

De Beers, which controls about 70 per cent of the world's supply of rough diamonds through its Central Selling Organisation, objected to a condition that any diamonds mined would be sold through bidding in the open market.

The rejection of the bids is a setback to efforts to lure private foreign investment into diamond exploration in central India.

In 1994, Madhya Pradesh officials decided to award prospecting licences for diamonds to De Beers, CRA, and Ashton Mining for large swathes of territory. However, in 1996 the central government rejected the award of licences, saying that the area granted was too large.

State officials subsequently drew up new conditions and fresh bids and tenders were invited earlier this year.

The invitation to foreign companies to mine Indian diamonds has aroused fervent opposition among local politicians, including those in the Bharatiya Janata party as well as some local Congress party leaders, who have vowed to prevent foreigners from removing what they say are India's national treasures.

With the two multinationals apparently eliminated from the competition, the short list for licences is narrowed to a consortium of Indian companies and the state-owned National Mineral Development Corporation.

## COMMODITIES PRICES

### BASE METALS

**LONDON METAL EXCHANGE**

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 1427.5-28.5 | 1455-56 |
| Previous | 1418.5-19.5 | 1446-46.5 |
| High/low | | 1464/1455 |
| AM Official | 1431-32 | 1459.5-60 |
| Kerb close | | 1455-56 |
| Open int. | 251,381 | |
| Total daily turnover | 63,237 | |

■ ALUMINIUM ALLOY ($ per tonne)

| | | |
|---|---|---|
| Close | 1278-83 | 1305-08 |
| Previous | 1255-58 | 1285-88 |
| High/low | | 1307/1304 |
| AM Official | 1274-75 | 1304-05 |
| Kerb close | | 1305-08 |
| Open int. | 5,162 | |
| Total daily turnover | 1,004 | |

■ LEAD ($ per tonne)

| | | |
|---|---|---|
| Close | 567-8 | 565-6 |
| Previous | 569-69.5 | 568-69 |
| High/low | | 571/561 |
| AM Official | 563-4 | 562.5-3 |
| Kerb close | | 568-9 |
| Open int. | 34,194 | |
| Total daily turnover | 9,266 | |

■ NICKEL ($ per tonne)

| | | |
|---|---|---|
| Close | 5480-90 | 5575-80 |
| Previous | 5450-60 | 5550-55 |
| High/low | | 5690/5570 |
| AM Official | 5490-95 | 5590-95 |
| Kerb close | | 5590-600 |
| Open int. | 50,933 | |
| Total daily turnover | 12,072 | |

■ TIN ($ per tonne)

| | | |
|---|---|---|
| Close | 5485-75 | 5460-70 |
| Previous | 5500-10 | 5490-95 |
| High/low | | 5490/5470 |
| AM Official | 5495-500 | 5475-80 |
| Kerb close | | 5460-70 |
| Open int. | 15,028 | |
| Total daily turnover | 4,385 | |

■ ZINC, special high grade ($ per tonne)

| | | |
|---|---|---|
| Close | 1056-57 | 1082-83 |
| Previous | 1091-92 | 1076-76.5 |
| High/low | | 1095/1076 |
| AM Official | 1057-57.5 | 1084-84.5 |
| Kerb close | | 1086-87 |
| Open int. | 75,082 | |
| Total daily turnover | 15,973 | |

■ COPPER, grade A ($ per tonne)

| | | |
|---|---|---|
| Close | 1739.5-40.5 | 1766-67 |
| Previous | 1742.5-43.5 | 1768-69 |
| High/low | | 1801/1759 |
| AM Official | 1749-50 | 1776-77 |
| Kerb close | | 1767-68 |
| Open int. | 158,888 | |
| Total daily turnover | 58,482 | |

■ LME AM Official £/$ rate: 1.6761
LME Closing £/$ rate: 1.6735

Spot: 1.6769 3 mths: 1.6695 6 mths: 1.6630 9 mths: 1.6585

■ HIGH GRADE COPPER (COMEX)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Mar | 79.95 | -1.60 | 80.00 | 78.85 | 616 | 1,259 |
| Apr | 79.60 | -1.60 | 80.20 | 79.15 | 6,673 | 4,460 |
| May | 80.10 | -1.55 | 81.95 | 79.40 | 2,979 | 26,465 |
| Jun | 80.30 | -1.55 | 81.00 | 80.20 | 203 | 2,252 |
| Jul | 80.65 | -1.35 | 81.50 | 80.10 | 1,874 | 11,102 |
| Aug | 80.85 | -1.35 | 80.80 | 80.80 | 11 | 1,399 |
| Total | | | | | 11,884 | 76,373 |

### PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

| Gold(Troy oz) | $ price | £ equiv | SFr equiv |
|---|---|---|---|
| Close | 301.10-301.60 | | |
| Opening | 297.50-297.90 | | |
| Morning fix | 298.65 | 178.33 | 443.53 |
| Afternoon fix | 300.30 | 178.44 | 447.80 |
| Day's High | 301.70-302.10 | | |
| Day's Low | 297.35-297.75 | | |
| Previous close | 293.20-293.70 | | |

Loco Ldn Mean Gold Lending Rates (Vs US$)

| | | | |
|---|---|---|---|
| 1 month | 3.79 | 6 months | 3.76 |
| 2 months | 3.78 | 12 months | 3.73 |
| 3 months | 3.78 | | |

| Silver Fix | p/troy oz. | US cts equiv. |
|---|---|---|
| Spot | 385.55 | 646.00 |
| 3 months | 394.30 | 641.05 |
| 6 months | 392.80 | 656.00 |
| 1 year | 393.75 | 662.00 |

| Gold Coins | $ price | £ equiv. |
|---|---|---|
| Krugerrand | 302-304 | 174-175 |
| Maple Leaf | | |
| New Sovereign | 69-72 | 41-43 |

### Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Mar | 299.5 | +7.8 | - | - | - | - |
| Apr | 299.9 | +0.4 | 302.5 | 297.6 | 47,982 | 55,804 |
| Jun | 301.8 | +0.6 | 304.5 | 299.3 | 11,557 | 54,053 |
| Aug | 303.8 | +0.6 | 306.0 | 304.0 | 176 | 7,491 |
| Oct | 305.8 | +0.6 | 308.2 | 306.0 | 15 | 4,075 |
| Dec | 307.8 | +0.6 | 310.3 | 305.9 | 584 | 15,179 |
| Total | | | | | 69,505 | 188,879 |

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

| | | | | | | |
|---|---|---|---|---|---|---|
| Apr | 415.4 | -6.4 | 423.5 | 412.0 | 3,548 | 11,937 |
| Jul | 410.8 | -6.5 | 418.5 | 407.0 | 1,346 | 4,432 |
| Oct | 408.3 | -6.5 | 415.0 | 409.0 | 13 | 431 |
| Jan | 405.8 | -6.5 | - | - | 1 | 64 |
| Total | | | | | 4,908 | 16,880 |

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

| | | | | | | |
|---|---|---|---|---|---|---|
| Mar | 289.45 | +6.10 | 289.00 | 289.00 | 27 | 53 |
| Jun | 274.45 | +5.10 | 281.35 | 274.25 | 552 | 4,917 |
| Sep | 266.95 | +3.60 | 271.00 | 270.00 | 71 | 728 |
| Total | | | | | 650 | 5,698 |

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

| | | | | | | |
|---|---|---|---|---|---|---|
| Mar | 632.0 | -4.0 | 636.0 | 630.0 | 88 | 266 |
| May | 633.5 | -4.5 | 651.0 | 629.0 | 14,378 | 43,448 |
| Jul | 631.5 | -4.0 | 647.0 | 627.0 | 1,241 | 15,805 |
| Sep | 629.0 | -3.7 | 641.0 | 632.0 | 25 | 5,143 |
| Dec | 626.5 | -3.5 | 638.0 | 626.0 | 256 | 10,456 |
| Jan | 626.0 | -3.9 | - | - | 4 | 15 |
| Total | | | | | 16,019 | 84,689 |

### ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

| | Latest price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 16.26 | -0.25 | 16.53 | 16.13 | 110.9k | 130.2k |
| Jun | 16.52 | -0.25 | 16.78 | 16.40 | 43,511 | 81,161 |
| Jul | 16.77 | -0.04 | 16.95 | 16.64 | 7,953 | 37,977 |
| Aug | 16.98 | -0.13 | 17.05 | 16.95 | 4,377 | 21,468 |
| Sep | 17.13 | -0.14 | 17.23 | 17.07 | 3,305 | 23,944 |
| Oct | 17.28 | -0.13 | 17.35 | 17.28 | 1,196 | 16,287 |
| Total | | | | | 204,258 | 467,957 |

■ CRUDE OIL IPE ($/barrel)

| | Latest price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 14.85 | -0.19 | 14.88 | 14.65 | 13,529 | 72,370 |
| Jun | 15.11 | -0.10 | 15.14 | 14.78 | 3,941 | 43,508 |
| Jul | 15.37 | -0.05 | 15.37 | 15.19 | 782 | 16,893 |
| Aug | 15.58 | -0.11 | 15.61 | 15.43 | 679 | 12,203 |
| Sep | 15.74 | -0.07 | 15.77 | 15.61 | 781 | 13,164 |
| Oct | 15.90 | -0.12 | 15.94 | 15.90 | 143 | 9,234 |
| Total | | | | | n/a | n/a |

■ HEATING OIL NYMEX (42,000 US galls; c/US galls.)

| | Latest price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Apr | 44.85 | -0.51 | 45.19 | 44.40 | 20,436 | 33,046 |
| May | 45.05 | -0.53 | 45.60 | 44.60 | 17,011 | 38,097 |
| Jun | 45.55 | -0.17 | 45.85 | 45.10 | 2,770 | 22,040 |
| Jul | 46.30 | -0.17 | 46.62 | 45.90 | 877 | 17,354 |
| Aug | 47.35 | +0.03 | 47.67 | 46.95 | 1,116 | 12,375 |
| Sep | 48.55 | +0.23 | 48.55 | 48.00 | 582 | 10,972 |
| Total | | | | | 44,412 | 166,682 |

■ GAS OIL IPE ($/tonne)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Apr | 135.75 | -3.25 | 137.25 | 134.50 | 11,356 | 32,148 |
| May | 137.75 | -3.25 | 139.00 | 136.75 | 6,211 | 19,731 |
| Jun | 139.50 | -3.50 | 141.00 | 138.25 | 4,016 | 16,437 |
| Jul | 142.50 | -3.25 | 143.25 | 141.75 | 1,057 | 9,633 |
| Aug | 145.25 | -2.75 | 146.00 | 144.50 | 960 | 8,474 |
| Sep | 148.00 | -3.00 | 148.50 | 147.00 | 527 | 8,927 |
| Total | | | | | 36,306 | [illegible] |

■ NATURAL GAS IPE (1,000 therms; pence per therm)

| | | | | | | |
|---|---|---|---|---|---|---|
| Apr | 8.710 | +0.040 | 8.710 | 8.710 | 25 | 2,815 |
| May | 8.650 | - | - | - | - | 2,000 |
| Total | | | | | 1,380 | 18,460 |

■ NATURAL GAS NYMEX (10,000 mmbtu; $/mmbtu)

| | Latest price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Apr | 2.350 | -0.031 | 2.385 | 2.295 | 35,197 | 30,558 |
| May | 2.355 | -0.032 | 2.390 | 2.330 | 27,480 | 31,228 |
| Jun | 2.390 | -0.022 | 2.415 | 2.360 | 7,257 | 16,428 |
| Jul | 2.395 | -0.017 | 2.430 | 2.370 | 3,578 | 13,957 |
| Aug | 2.400 | -0.024 | 2.443 | 2.390 | 4,266 | 14,194 |
| Sep | 2.400 | -0.024 | 2.460 | 2.390 | 2,481 | 10,571 |
| Total | | | | | [illegible] | [illegible] |

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

| | Latest price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Apr | 52.80 | -1.38 | 54.00 | 52.60 | 18,080 | 24,359 |
| May | 53.30 | -1.15 | 54.70 | 53.10 | 19,423 | 36,355 |
| Jun | 53.65 | -0.40 | 54.10 | 53.40 | 4,599 | 17,594 |
| Jul | 53.75 | -0.82 | 54.70 | 53.70 | 2,154 | 12,020 |
| Aug | 53.70 | -0.57 | 54.55 | 53.50 | 780 | 6,853 |
| Sep | 53.36 | -0.80 | 53.60 | 53.35 | 424 | 7,527 |
| Total | | | | | [illegible] | [illegible] |

### GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 72.35 | -1.40 | 73.35 | 72.95 | 175 | 2,580 |
| Jul | 74.50 | -1.25 | 75.55 | 74.50 | 243 | 1,396 |
| Sep | 74.00 | -1.00 | 75.00 | 74.00 | 15 | 123 |
| Nov | 76.00 | -1.00 | 77.25 | 76.00 | 172 | 2,864 |
| Jan | 78.00 | -1.00 | 79.25 | 78.00 | 73 | 365 |
| Total | | | | | 698 | 7,115 |

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

| | | | | | | |
|---|---|---|---|---|---|---|
| May | 331.25 | -1.00 | 332.50 | 328.50 | 13,550 | 43,068 |
| Jul | 341.25 | -0.50 | 342.00 | 338.00 | 9,552 | 39,347 |
| Sep | 349.50 | -1.00 | 350.00 | 347.50 | 402 | 5,700 |
| Dec | 362.25 | - | 362.50 | 359.75 | 1,425 | 11,518 |
| Mar | 368.75 | +0.75 | 368.50 | 367.00 | 235 | 855 |
| Jul | 359.00 | - | - | - | 3 | 37 |
| Total | | | | | 25,164 | 100,525 |

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

| | | | | | | |
|---|---|---|---|---|---|---|
| May | 265.50 | -1.25 | 266.75 | 264.25 | 28,871 | 126,487 |
| Jul | 271.75 | -1.25 | 273.25 | 270.50 | 7,681 | 112,147 |
| Sep | 274.50 | -1.50 | 276.25 | 274.00 | 1,436 | 24,618 |
| Dec | 275.00 | -2.25 | 277.50 | 274.25 | 6,062 | 93,475 |
| Mar | 281.50 | -2.25 | 283.25 | 281.00 | 146 | 6,640 |
| May | 286.25 | -1.75 | 287.00 | 285.75 | 41 | 269 |
| Total | | | | | 44,396 | 368,047 |

■ BARLEY LIFFE (100 tonnes; £ per tonne)

| | | | | | | |
|---|---|---|---|---|---|---|
| May | 73.25 | -0.50 | 73.50 | 73.50 | 5 | 252 |
| Sep | 72.25 | -1.00 | - | - | - | 12 |
| Nov | 74.25 | -1.00 | 75.25 | 74.50 | 15 | 502 |
| Jan | 76.25 | -1.00 | - | - | - | 75 |
| Mar | 78.25 | -1.00 | - | - | - | - |
| Total | | | | | 20 | 841 |

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

| | | | | | | |
|---|---|---|---|---|---|---|
| May | 651.50 | - | 653.00 | 646.50 | 20,319 | 68,346 |
| Jul | 654.00 | -0.50 | 655.75 | 649.50 | 6,449 | 44,157 |
| Aug | 654.75 | - | 655.00 | 650.75 | 617 | 8,977 |
| Sep | 641.00 | - | 643.00 | 638.50 | 108 | 1,636 |
| Nov | 635.25 | -0.25 | 636.75 | 631.50 | 3,174 | 29,748 |
| Jan | 641.00 | -0.50 | 641.00 | 637.50 | 37 | 939 |
| Total | | | | | 30,721 | 154,772 |

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

| | | | | | | |
|---|---|---|---|---|---|---|
| May | 27.46 | -0.01 | 27.63 | 27.27 | 8,439 | 69,113 |
| Jul | 27.65 | -0.02 | 27.75 | 27.47 | 5,445 | 50,109 |
| Aug | 27.55 | -0.01 | 27.65 | 27.35 | 741 | 8,042 |
| Sep | 27.30 | -0.05 | 27.30 | 27.15 | 275 | 5,425 |
| Oct | 26.80 | -0.03 | 26.80 | 26.68 | 491 | 4,489 |
| Dec | 26.66 | -0.03 | 26.70 | 26.52 | 2,008 | 13,407 |
| Total | | | | | 17,399 | 151,338 |

■ SOYABEAN MEAL CBT (100 tons; $/ton)

| | | | | | | |
|---|---|---|---|---|---|---|
| May | 169.3 | +0.5 | 170.0 | 167.6 | 8,675 | 56,799 |
| Jul | 171.8 | -0.1 | 172.7 | 170.1 | 4,960 | 34,996 |
| Aug | 173.5 | +0.6 | 174.2 | 171.8 | 880 | 13,536 |
| Sep | 174.4 | -0.1 | 175.2 | 173.1 | 367 | 10,096 |
| Oct | 174.6 | +0.1 | 175.5 | 174.0 | 164 | 4,105 |
| Dec | 177.6 | -0.4 | 178.4 | 176.7 | 759 | 12,825 |
| Total | | | | | 15,810 | 133,247 |

■ POTATOES LIFFE (20 tonnes; £ per tonne)

| | | | | | | |
|---|---|---|---|---|---|---|
| Apr | 68.0 | +3.0 | 69.0 | 66.0 | 46 | 539 |
| May | 75.0 | +3.0 | 73.0 | 73.0 | 24 | 357 |
| Jun | 82.0 | - | - | - | - | - |
| Nov | 59.0 | - | - | - | - | 3 |
| Mar | 88.0 | - | - | - | - | - |
| Total | | | | | 72 | 1,160 |

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

| | | | | | | |
|---|---|---|---|---|---|---|
| Mar | 985 | -13 | 993 | 985 | 11 | 341 |
| Apr | 995 | -5 | 1000 | 990 | 67 | 723 |
| May | 1015 | -10 | 1017 | 1015 | 13 | 232 |
| Jul | 944 | +4 | - | - | - | 259 |
| Oct | 1085 | - | 1085 | 1085 | 2 | 131 |
| Total | | | | | 93 | 1,891 |

| | Close | Prev |
|---|---|---|
| BFI | 1011 | 1025 |

### PULP AND PAPER

■ POLPEX OMLX (US$; 24 air dry tons)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Jun | 518.50 | -2.50 | 520.50 | 518.50 | 36 | 506 |
| Sep | 538.00 | -2.00 | 538.00 | 538.00 | 20 | 175 |
| Total | | | | | 61 | 708 |

**FUTURES DATA**

*All futures data supplied by CMS.*

**Minor metals** from Metal Bulletin

European free market, $ per lb in warehouse, unless otherwise stated (last week's in brackets, where changed). Antimony: 99.65%, $ per tonne, 1,580-1,630 (1,570-1,620). Bismuth: min. 99.99%, tonne lots 3.95-4.15 (3.80-3.90). Cadmium: min. 99.95%, cents a pound, 28.00-35.00 (30.00-38.00). Cobalt: MB free market, min. 99.8%, 25.00-25.70; min. 99.3%, 20.00-20.50. Mercury: min. 99.99%, $ per 76 lb flask, 138-148. Molybdenum: drummed molybdic oxide, 4.40-4.55 (4.35-4.45). Selenium: min 99.5%, 1.70-2.50. Tungsten ore: standard min. 65%, $ per tonne unit (10kg) $WO_3$, CIF, 40-52. Vanadium: min. 98%, CIF, 5.75-6.00 (5.60-5.90). Uranium: Nuexco unrestricted exchange value, 9.30.

### SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Mar | 1068 | -15 | - | - | - | 163 |
| May | 1077 | -14 | 1094 | 1074 | 2,186 | 28,655 |
| Jul | 1090 | -14 | 1107 | 1089 | 621 | 17,110 |
| Sep | 1104 | -13 | 1116 | 1103 | 606 | 26,668 |
| Dec | 1124 | -12 | 1137 | 1124 | 459 | 27,911 |
| Mar | 1144 | -12 | 1158 | 1145 | 285 | 37,585 |
| Total | | | | | 4,182 | 160,157 |

■ COCOA CSCE (10 tonnes; $/tonnes)

| | | | | | | |
|---|---|---|---|---|---|---|
| May | 1649 | -34 | 1672 | 1644 | 10,347 | 28,701 |
| Jul | 1665 | -32 | 1686 | 1662 | 1,901 | 17,599 |
| Sep | 1684 | -31 | 1703 | 1684 | 261 | 7,840 |
| Dec | 1716 | -31 | 1735 | 1721 | 279 | 13,682 |
| Mar | 1747 | -29 | - | - | 703 | 9,254 |
| May | 1766 | -29 | - | - | 400 | 3,865 |
| Total | | | | | 13,891 | 80,589 |

■ COCOA (ICCO) (SDR's/tonne)

| Mar 23 | Price | Prev. day |
|---|---|---|
| Daily | 1315.38 | 1300.04 |

■ COFFEE LIFFE (5 tonnes; $/tonne)

| | | | | | | |
|---|---|---|---|---|---|---|
| Mar | 1730 | -5 | 1727 | 1720 | 31 | 176 |
| May | 1730 | -10 | 1744 | 1724 | 1,420 | 17,557 |
| Jul | 1700 | -10 | 1714 | 1694 | 545 | 10,620 |
| Sep | 1674 | -9 | 1688 | 1675 | 33 | 3,006 |
| Nov | 1648 | -9 | - | - | - | 1,282 |
| Jan | 1626 | -9 | - | - | - | 109 |
| Total | | | | | 2,029 | 32,746 |

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

| | | | | | | |
|---|---|---|---|---|---|---|
| May | 146.40 | -1.85 | 149.50 | 145.00 | 4,299 | 15,742 |
| Jul | 141.20 | -1.20 | 143.50 | 140.25 | 1,156 | 6,071 |
| Sep | 135.80 | -1.05 | 137.25 | 135.00 | 523 | 4,733 |
| Dec | 129.80 | -0.70 | 131.50 | 129.00 | 272 | 3,539 |
| Mar | 126.55 | -0.70 | 129.00 | 128.00 | 41 | 1,130 |
| May | 125.05 | -0.70 | 127.75 | 125.50 | 4 | 536 |
| Total | | | | | 6,297 | 31,885 |

■ COFFEE (ICO) (US cents/pound)

| Mar 23 | | Prev. day |
|---|---|---|
| Comp. daily | 120.61 | 119.24 |
| 15 day average | 119.49 | 119.73 |

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

| | | | | | | |
|---|---|---|---|---|---|---|
| May | 268.8 | -2.8 | 272.5 | 268.8 | 789 | 16,770 |
| Aug | 271.5 | -2.5 | 274.7 | 271.5 | 877 | 9,961 |
| Oct | 275.0 | -1.9 | 277.0 | 275.0 | 406 | 6,944 |
| Dec | 279.0 | +0.8 | 279.0 | 277.0 | 107 | 828 |
| Mar | 281.0 | -0.6 | 281.0 | 280.0 | 8 | 972 |
| May | 282.0 | -2.1 | 283.3 | 282.0 | 119 | 439 |
| Total | | | | | n/a | n/a |

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

| | | | | | | |
|---|---|---|---|---|---|---|
| May | 9.93 | +0.10 | 9.98 | 9.81 | 5,413 | 76,197 |
| Jul | 9.84 | +0.04 | 9.72 | 9.58 | 1,545 | 36,657 |
| Oct | 9.84 | - | 9.91 | 9.81 | 1,488 | 42,481 |
| Mar | 10.18 | -0.02 | 10.24 | 10.16 | 1,026 | 17,233 |
| May | 10.23 | -0.02 | 10.29 | 10.29 | 66 | 2,329 |
| Jul | 10.29 | +0.02 | 10.28 | 10.25 | 62 | 3,395 |
| Total | | | | | 9,849 | 180,985 |

■ COTTON NYCE (50,000lbs; cents/lbs)

| | | | | | | |
|---|---|---|---|---|---|---|
| May | 69.36 | -0.32 | 69.55 | 69.05 | 3,263 | 29,792 |
| Jul | 70.74 | -0.30 | 70.90 | 70.40 | 1,523 | 16,678 |
| Oct | 72.75 | -0.28 | 72.80 | 72.65 | 85 | 2,848 |
| Dec | 73.95 | -0.09 | 74.00 | 73.75 | 1,246 | 25,773 |
| Mar | 74.98 | -0.02 | 74.90 | 74.90 | 39 | 1,887 |
| Total | | | | | 6,298 | 79,361 |

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

| | | | | | | |
|---|---|---|---|---|---|---|
| May | 108.70 | +0.15 | 108.90 | 108.05 | 1,346 | 22,143 |
| Jul | 111.70 | - | 111.80 | 111.00 | 402 | 7,170 |
| Sep | 114.60 | +0.10 | 114.30 | 114.00 | 179 | 3,510 |
| Nov | 116.10 | +0.10 | 115.75 | 115.75 | 68 | 3,174 |
| Jan | 116.95 | -0.30 | 117.00 | 117.00 | 130 | 1,343 |
| Mar | 118.95 | -0.30 | 118.70 | 118.40 | 10 | 749 |
| Total | | | | | 1,986 | 38,989 |

**VOLUME DATA**

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

### INDICES

■ Reuters (Base: 18/9/31 = 100)

| Mar 24 | Mar 23 | month ago | year ago |
|---|---|---|---|
| 1678.0 | 1688.3 | 1710.2 | 1987.8 |

■ CRB Futures (Base: 1967 = 100)

| Mar 23 | Mar 20 | month ago | year ago |
|---|---|---|---|
| 231.54 | 226.67 | - | - |

■ GSCI Spot (Base: 1970 = 100)

| Mar 23 | Mar 20 | month ago | year ago |
|---|---|---|---|
| 170.98 | 162.63 | 164.24 | 194.19 |

LME WAREHOUSE STOCKS (tonnes)

| | | | |
|---|---|---|---|
| Aluminium | -1,450 | to | 647,250 |
| Aluminium alloy | -180 | to | 45,600 |
| Copper | +2,425 | to | 352,250 |
| Lead | -800 | to | 98,100 |
| Nickel | -162 | to | 64,176 |
| Zinc | -1,575 | to | 467,925 |
| Tin | -190 | to | 8,580 |

### MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Apr | 64.800 | -0.350 | 65.325 | 64.700 | 4,790 | 42,510 |
| Jun | 66.650 | -0.300 | 67.050 | 66.550 | 2,820 | 33,462 |
| Aug | 68.025 | -0.075 | 68.325 | 67.950 | 1,115 | 12,874 |
| Oct | 68.875 | -0.025 | 69.175 | 68.825 | 339 | 8,908 |
| Dec | 69.800 | - | 69.975 | 69.775 | 38 | 2,540 |
| Feb | 71.050 | - | 71.250 | 71.000 | 9 | 806 |
| Total | | | | | 9,116 | 101,235 |

■ LEAN HOGS CME (40,000lbs; cents/lbs)

| | | | | | | |
|---|---|---|---|---|---|---|
| Apr | 51.950 | -0.175 | 52.125 | 51.400 | 2,614 | 12,870 |
| Jun | 57.975 | -0.600 | 58.550 | 57.725 | 1,738 | 12,259 |
| Jul | 57.100 | -0.400 | 57.800 | 56.850 | 420 | 4,146 |
| Aug | 55.075 | +0.350 | 55.250 | 54.375 | 376 | 3,235 |
| Oct | 52.325 | +0.025 | 52.400 | 52.150 | 178 | 2,956 |
| Dec | 52.550 | +0.180 | 52.850 | 52.500 | 103 | 2,803 |
| Total | | | | | 5,451 | 38,824 |

■ PORK BELLIES CME (40,000lbs; cents/lbs)

| | | | | | | |
|---|---|---|---|---|---|---|
| Mar | 48.450 | -0.150 | 49.000 | 48.300 | 18 | 37 |
| May | 46.900 | -0.225 | 47.400 | 46.225 | 1,980 | 5,912 |
| Jul | 45.775 | - | 46.000 | 45.000 | 434 | 2,280 |
| Aug | 44.600 | +0.250 | 45.000 | 44.000 | 132 | 959 |
| Sep | 46.450 | -0.550 | - | 46.400 | 1 | 16 |
| Total | | | | | 2,585 | 9,234 |

### LONDON TRADED OPTIONS

| Strike price $ tonne | — Calls — | | — Puts — | |
|---|---|---|---|---|
| ■ ALUMINIUM (99.7%) LME | May | Aug | May | Aug |
| 1425 | 47 | 84 | 23 | 35 |
| 1450 | 33 | 70 | 34 | 45 |
| 1475 | 23 | 57 | 48 | 57 |
| ■ COPPER (Grade A) LME | May | Aug | May | Aug |
| 1700 | 97 | 131 | 29 | 55 |
| 1750 | 67 | 103 | 49 | 75 |
| 1800 | 44 | 80 | 75 | 101 |
| ■ COFFEE LIFFE | Mar | May | Mar | May |
| 1650 | 97 | 110 | 17 | 60 |
| 1700 | 61 | 83 | 31 | 83 |
| 1750 | 36 | 63 | 56 | 113 |
| ■ COCOA LIFFE | May | Jul | May | Jul |
| 1050 | 38 | 66 | 11 | 26 |
| 1075 | 24 | 50 | 22 | 35 |
| 1100 | 14 | 38 | 37 | 48 |
| ■ BRENT CRUDE IPE | May | Jun | May | Jun |
| 1450 | - | - | 41 | - |
| 1500 | 36 | - | 62 | - |
| 1550 | 22 | 57 | - | - |

### LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

| | | +or- |
|---|---|---|
| Dubai | $12.37-2.42x | -0.415 |
| Brent Blend (dated) | $14.04-4.11 | -0.36 |
| Brent Blend (May) | $14.55-4.59 | -0.445 |
| W.T.I. | $15.93-5.96x | -0.43 |

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

| | | |
|---|---|---|
| Premium Gasoline | $165-167 | -3 |
| Gas Oil | $135-136 | -3 |
| Heavy Fuel Oil | $84-86 | +3 |
| Naphtha | $142-144 | -4 |
| Jet fuel | $144-146 | -3 |
| Diesel | $138-140 | -3.5 |

■ NATURAL GAS (Pence/therm)

| | | |
|---|---|---|
| Bacton (Apr) | 8.65-8.75 | -0.05 |

*Petroleum Argus. Tel. London (0171) 359 8792*

■ OTHER

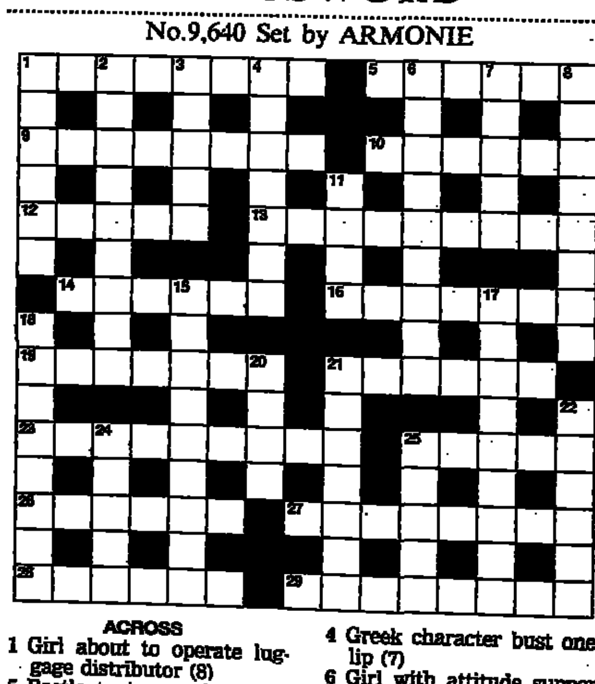
| | | |
|---|---|---|
| Gold (per troy oz)♣ | $301.35 | -7.80 |
| Silver (per troy oz)♣ | 646.00c | +21.5 |
| Platinum (per troy oz.) | $422.00 | +4.00 |
| Palladium (per troy oz.) | $293.50 | +5.50 |
| Copper | 86.0c | +1.0 |
| Lead (US prod.) | 45.00c | |
| Tin (Kuala Lumpur) | 19.60r | -0.31 |
| Tin (New York) | 261.5 | |
| Cattle (live weight) | 88.18p | +0.98* |
| Sheep (live weight) | 98.73p | -0.10* |
| Pigs (live weight)† | 75.38p | -0.48* |
| Lon. day sugar (raw) | $242.60 | -2.20 |
| Lon. day sugar (wte) | $272.50 | -2.30 |
| Barley (Eng. feed) | Unq | |
| Maize (US No3 Yellow) | £109.00 | |
| Wheat (US Dark North) | Unq | |
| Rubber (Apr)♥ | 47.50p | |
| Rubber (May)♥ | 47.50p | |
| Rubber (KL RSS No1) | 276.50m | +1.50 |
| Coconut Oil (Phil)§ | 580.0y | -15.0 |
| Palm Oil (Malay.)§ | 642.5 | +2.5 |
| Copra (Phil)§ | $380.0y | |
| Soyabeans (US) | 174.0 | -1.0 |
| Cotton Outlook'A' index | 66.35 | |
| Wooltops (64s Super) | 376p | |

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y May/Jun. x May. ♥London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 3,994 head of pigs sold.

**JOTTER PAD**

## CROSSWORD

No.9,640 Set by ARMONIE



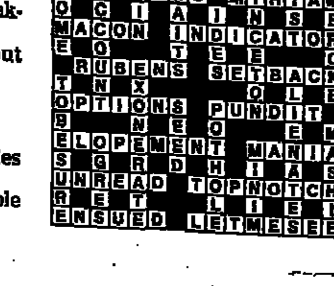
ACROSS

1 Girl about to operate luggage distributor (8)
5 Beetle to traumatise backward scholar (6)
9 Assess one by proxy and give promotion (8)
10 Occasion where hospital department has trouble (6)
12 Declared being angry about wicket (5)
13 Oriental maiden transformed circus performer (4,5)
14 Discourage study about a politician (8)
16 Dance around the Spanish fruit tree (7)
19 One building for English clergyman (7)
21 One enrolled in island institute (6)
23 Old relative in trip in "The Flower of El Paso" (3,6)
25 Head friar books hotel (5)
26 Difficulty getting power to lamp (6)
27 Model danced with one instrument (8)
28 Girl gets thanks when taking control (6)
29 Furtive and coy about drink with officer (8)

DOWN

1 Stylish girl in Cyprus (6)
2 Unprincipled expert hides in groove (9)
3 Treatment with acceptable flavouring (5)
4 Greek character bust one's lip (7)
6 Girl with attitude supporting Tory (9)
7 Land student in the paper (5)
8 Sweeper gathers everything in place of entertainment (8)
11 Forcefully attack beast (4)
15 Tsar put on false overcoat (9)
17 Hearty pirate wearing old doublet? (9)
18 Fancy Ted Price being run down (8)
20 Rotten Row (4)
21 Kind of lintel initially embedded in plaster (7)
22 Bridge player ready for a drink (6)
24 Duck to inhabit tree (5)
25 Roman goddess raised a German boy (5)

Solution 9,639



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## OFFSHORE AND OVERSEAS

### BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

### BERMUDA (REGULATED)(**)

### GUERNSEY (FSA RECOGNISED)

Royal Bk of Canada O/S Fd Mgrs Ltd

### GUERNSEY (REGULATED)(**)

### IRELAND (FSA RECOGNISED)

AIB Fund Management Ltd

Aberdeen Prolific International Fund Plc

Henderson Crosthwaite Investment Co

Lazard Investment Funds Ltd

Atlantis Korean Smaller Companies Fund

BT&T Asset Management (Ireland) Ltd

Bank of Ireland Unit Managers Ltd

Hanson Ireland Ltd

Irish Life International Global Funds Plc

John Hancock Funds Plc

Sellers Investment Mngt (Ireland) Ltd

Singer & Friedlander Closed Funds Plc

Scandia Select Fund Plc

Societe Generale Group

Super Phoenix Fund

Trainer Wortham & Company Inc

Ulster Bank Investment Services

Royal Bank of Scotland Fd Mgrs (Jersey) Ltd

Royal Bank of Scotland International Ltd

Standard Bank Fund Mngt (Jersey) Ltd

Scottish Value Management (Ireland) Ltd (u)

Dragon Korea Fund Plc

Dresdner Kleinwort Benson Int Mgt Srv

### ISLE OF MAN (FSA RECOGNISED)

### ISLE OF MAN (REGULATED)(**)

### JERSEY (REGULATED)(**)

### JERSEY (FSA RECOGNISED)



Singer & Friedlander Inv Funds Ltd (m)

Eagle Star European Life Assurance Co Ltd

Edgehill Select Group

### IRELAND (REGULATED)(**)

### LUXEMBOURG (FSA RECOGNISED)

Offshore Funds and Insurances

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## Aberdeen Fund Mngrs (Luxembourg) Ltd (u)

4 Boulevard Royal L 2449 Luxembourg 00 352 227001

| | Selling Price | Buying Price | + or - | Yield Gr's |
|---|---|---|---|---|
| Global Cap Portfolio | $4.177 | | — | - |
| United States Portfolio | $8.276 | | — | - |
| Europe Portfolio | DM10.267 | | — | - |
| Japan Portfolio | [illegible] | | — | - |
| Far East Emg Econ Portfolio | $4.021 | | — | - |
| Gold Portfolio | $3.375 | | — | - |

## American Phoenix Investment Portfolios (u)

13 rue Goethe, L-1637 Luxembourg 00 352 40464211

## Fleming Group - Contd.

## Foreign & Colonial Emerging Markets Ltd (u)

Exchange Hs, Primrose St, Ldn, EC2A 2NY 0171-628 1234

## Foreign & Colonial Portfolios Fd Sicav(u)

47 Boulevard Royal, L-2449 Lux 00 352 4640101

## Frontrunner I (u)

672 rue de Neudorf, Luxembourg 00 352 43887350

## Mercury Asset Management - Contd.

| | Selling Price | Buying Price | + or - | Yield Gr's |
|---|---|---|---|---|
| Global | £2.302 | 2.434 | -0.014 | 0.00 |
| Overseas | £7.280 | 2.393 | -0.008 | 0.00 |
| European | £1.620 | 1.831 | -0.011 | 0.00 |
| Japan | £0.682 | 0.725 | -0.007 | 0.00 |
| North American | £3.650 | 3.852 | -0.025 | 0.00 |
| Pacific | £1.552 | 1.650 | -0.004 | 0.00 |
| United Kingdom | £2.885 | 3.056 | — | 0.90 |
| Reserve | [illegible] | 0.686 | - | 6.26 |

Mercury World Bond Fund - SICAV (u)

| | | | | |
|---|---|---|---|---|
| Mercury World Bond | $37.21 | 38.18 | +0.03 | 0.51 |

## Morgan Stanley Sicav

C/O First European Transfer Agent S.A.

11 Boulevard Grand-Duchesse Charlotte

L-1331 Luxembourg (352) 254701 511

# LUXEMBOURG (REGULATED)(**)

## ACM Offshore Funds

Growth Funds

## Credit Suisse Asset Mgmt Funds - Contd.

## Merrill Lynch Asset Management - Contd.

## Swiss Bank Corporation - Contd.

## Equitable Life (International)

# OFFSHORE INSURANCES

## Aberdeen International Ltd

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OTHER OFFSHORE FUNDS

# LONDON SHARE SERVICE

## ALCOHOLIC BEVERAGES

| | Notes | Price | + or - | 52 week high | 52 week low | Volume '000s | Yld Gr's | P/E |
|---|---|---|---|---|---|---|---|---|
| Allied Domecq | [illegible] | 587 | +1 | 618 | 407½ | 3,364 | 4.2 | 15.0 |
| Bulmer (HP) | [illegible] | 391 | +3½ | 605 | 295 | - | 5.4 | 10.6 |
| Burn Stewart | [illegible] | 29½ | | 70½ | 28 | 61 | 14.4 | 10.3 |
| Diageo | [illegible] | 725xd | +12½ | 735 | 432 | 8,657 | 2.5 | 31.1 |
| Glenmorangie A | † | 838 | | 1020 | 775 | - | 2.0 | 19.6 |
| B | † | 832½ | | 1148 | 912½ | - | 0.9 | 44.6 |
| Highland | [illegible] | 289 | -½ | 358 | 258 | 306 | 4.1 | 12.4 |
| 5¼pc Cv Sb Bd | | 96 | | 99½ | 85½ | - | 6.0 | - |
| Kirin Y | [illegible] | 694¼ | -9 | [illegible] | 416¾ | - | 1.1 | - |
| Matthew Clark | [illegible] | 287½xd | -½ | 335 | 157 | 138 | 12.0 | 6.7 |
| Merrydown | [illegible] | 49½ | -½ | 100½ | 45 | - | 8.0 | - |
| Seagram C$ | | £23½ | -¼ | £25½ | £18¾ | - | 1.2 | - |

## BANKS, RETAIL

[illegible]

## BREWERIES, PUBS & REST

[illegible]

## BUILDING MATS. & MERCHANTS

[illegible]

## CHEMICALS

[illegible]

## CONSTRUCTION

[illegible]

## CONSTRUCTION - Continued

[illegible]

## DISTRIBUTORS

[illegible]

## DIVERSIFIED INDUSTRIALS

[illegible]

## ELECTRICITY

[illegible]

## ELECTRONIC & ELECTRICAL EQPT

[illegible]

## ENGINEERING

[illegible]

## ENGINEERING - Continued

[illegible]

## ENGINEERING, VEHICLES

[illegible]

## EXTRACTIVE INDUSTRIES

[illegible]

## EXTRACTIVE INDUSTRIES - Continued

[illegible]

## FOOD PRODUCERS

[illegible]

## GAS DISTRIBUTION

[illegible]

## HEALTH CARE

[illegible]

## HEALTH CARE - Continued

[illegible]

## HOUSEHOLD GOODS & TEXT

[illegible]

## HOUSEHOLD GOODS & TEXT - Continued

[illegible]

## INSURANCE

[illegible]

## INVESTMENT TRUSTS

[illegible]

## INVESTMENT TRUSTS - Continued

[illegible]

## INV TRUSTS SPLIT CAPITAL

[illegible]

# LONDON SHARE SERVICE

## INV TRUSTS SPLIT CAPITAL - Continued

[illegible]

## OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

[illegible]

## INVESTMENT COMPANIES

[illegible]

## LEISURE & HOTELS

[illegible]

## LIFE ASSURANCE

[illegible]

## MEDIA

[illegible]

## MEDIA - Continued

[illegible]

## OIL EXPLORATION & PRODUCTION

[illegible]

## OIL, INTEGRATED

[illegible]

## OTHER FINANCIAL

[illegible]

## PAPER, PACKAGING & PRINTING

[illegible]

## PHARMACEUTICALS

[illegible]

## PHARMACEUTICALS - Continued

[illegible]

## PROPERTY

[illegible]



## PROPERTY - Continued

[illegible]

## RETAILERS, FOOD

[illegible]

## RETAILERS, GENERAL

[illegible]

## RETAILERS, GENERAL - Continued

[illegible]

## SUPPORT SERVICES

[illegible]

## SUPPORT SERVICES - Continued

[illegible]

## TELECOMMUNICATIONS

[illegible]

## TOBACCO

[illegible]

## TRANSPORT

[illegible]

## TRANSPORT - Continued

[illegible]

## WATER

[illegible]

## AIM

[illegible]

## AIM - Continued

[illegible]

## AMERICANS

[illegible]

## CANADIANS

[illegible]

## SOUTH AFRICANS

[illegible]

## TRADED INDEX SECURITIES

[illegible]

## GUIDE TO LONDON SHARE SERVICE

[illegible]

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IBR 'Headline Earnings' forecasts.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- \# Price at time of suspension
- Indicated dividend yield after pending scrip and/or rights issue
- Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- Unregulated collective investment scheme.

[illegible]

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# Takeover hints drive Footsie back towards 6,000

**MARKET REPORT**

By Steve Thompson, UK Stock Market Editor

A whiff of takeover speculation in the leaders was enough to direct the FTSE 100 back on to the upward path yesterday after Wall Street's overnight slide caused an early bout of jitters in UK stocks.

The takeover/merger rumours focused mainly on Ladbroke, the hotels to gaming group, and on GEC and British Aerospace. Ladbroke was said to be the prime target for Hilton Hotels, the US group, while the UK's two leading aerospace/electronics companies have long been seen as perfect merger partners.

British Aerospace soared above the £20 level for the first time in response to the rumours, while GEC was additionally boosted by speculation that the US government's moves to block the merger of Lockheed Martin and Northrop Grumman may open the way for a US merger involving GEC.

Further support for equities came with a batch of generally well-received company reports, notably from P & O, the shipping and transport group, as well as from some engineering groups. And Wall Street's big opening gains gave a late push to London, which finished at the day's highs.

Unlike recent sessions, however, the overall picture in the market's second-liners was one of modest but persistent profit-taking, prompted, dealers said, by the recent strength of the FTSE 250. That index hit new intra-day and closing records on 17 out of the last 18 sessions.

There were no such restraints for the small-cap stocks, however, which continued to attract strong support from institutions. Smaller stocks are seen by many as offering excellent value and are mostly perceived to be dependent on domestic sales, therefore avoiding currency hits.

Sterling offered the big exporters a slight glimmer of hope, edging back from its recent high levels. The Bank of England's trade-weighted index eased to 107.8, from the previous day's 107.9.

Gilts were supportive of equities, too, nudging higher in front of today's auction of £2bn-worth of 10-year stock.

At the close, the FTSE 100 index was 36.7 higher at the day's best of 5,966.0. The FTSE 250, which never managed to scramble into positive territory, slipped 2.2 to 5,523.3, having been as low as 5,519.8. The FTSE SmallCap continued its advance to record levels and closing records, finishing 3.3 up at 2,613.8, after a peak of 2,615.1.

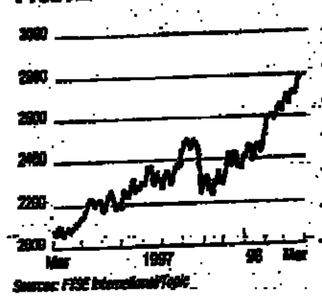
Earlier London had to cope with flurries of selling, as some investors became uneasy with the 90-point fall on the Dow Jones Industrial Average on Monday.

Additional downside pressure was exerted by a retreat in the oil sector, which attracted plenty of profit-taking after Monday's big gains. BP gave back almost half of the 7 per cent gain it recorded the previous day.

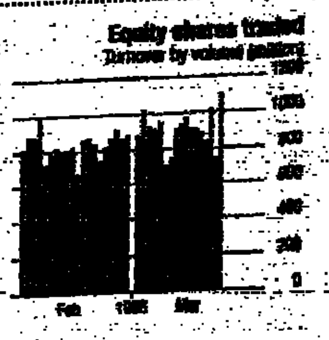
BP vied with BT as the worst performer among the FTSE 100 constituents, the latter eventually emerging with the biggest fall, as one big broking house adopted a more cautious stance on the shares.

Turnover in equities rose to 1.10bn shares at 6pm, boosted by a big placing of Somerfield by Cazenove and Flemings.

**FTSE All-Share Index**



**Equity shares traded** Turnover by volume (million)



**Indices and ratios**

| | | | | | |
|---|---|---|---|---|---|
| FTSE 100 | 5963.7 | +36.7 | FT 30 | 3796.7 | +28.6 |
| FTSE 250 | 5523.3 | -2.2 | FTSE Non-Fins p/e | 22.25 | 22.35 |
| FTSE 350 | 2872.2 | +14.1 | FTSE100 Fut Mar | 5974.0 | +13.0 |
| FTSE All-Share | 2798.85 | +13.13 | 10 yr Gilt yield | 5.96 | 5.97 |
| FTSE All-Share yield | 2.77 | 2.78 | Long gilt/equity yld ratio | 2.16 | 2.15 |

**Best performing sectors**

1 Electronic & Elect Equip +3.2
2 Retailers, Food +2.5
3 Gas Distribution +2.4
4 Leisure & Hotels +2.1
5 Breweries, Pubs & Rest +2.1

**Worst performing sectors**

1 Telecommunications -2.4
2 Oil Integrated -1.6
3 Oil Exploration & Prod -1.3
4 Resources -1.2
5 Health Care -0.7

# Ladbroke bid talk returns

**COMPANIES REPORT**

By Joel Kibazo, Martin Brice and Steve Thompson

Hotels and betting company Ladbroke Group was by far the best performing stock in the FTSE 100 as fresh hopes of a merger with Hilton Hotel Corp of the US re-surfaced.

The speculation, which sent the shares up 22 or 6.5 per cent ahead to 358p, returned after merger talks between Hilton Hotels and Circus Circus Enterprises, the casino operator, were reported at the weekend to have broken down.

"Who knows, now that the Circus deal has not come through Hilton may now be ready for a merger with another company," said one specialist.

Ladbroke which owns the use of the Hilton name outside the US after acquiring Hilton International in 1987 owns a chain of 167 Hilton International hotels.

The UK group signed a worldwide alliance with Hilton Hotels Corp in January 1997 to reunite the Hilton brand globally.

Turnover in supermarket chain Somerfield shot up to 131m, making it the most heavily traded stock of the day. It is believed that Cazenove and Robert Fleming placed 53m shares with a range of institutions. The stock was placed at 333p. The shares firmed 7½ to 345½p.

Shareholders last week approved Somerfield's proposed merger with food discounter Kwik Save, up 11½ to 404p.

Brokers yesterday moved to upgrade profit expectations at Iceland Group after the company reported better-than-expected profits for the year to January 1998. The shares responded by gaining 18 to 197½p.

Analysts upgraded pre-tax profit forecasts for 1998 to a range of £53m to £55m from a range of £47m to £48m.

The company also said it will consider its dividend policy once gearing is below 100 per cent, which should be at the end of this year.

In the rest of the food retailers, the sector leaders were in demand and J Sainsbury put on 20 to 510p, in trade of 2m, and Tesco rose 19 to 569p. Asda Group hardened 2 to 202p.

Defence industry merger speculation continued on the back of a failed US defence deal, with the usual suspects receiving attention. The US government said it would try to stop the $9bn merger between Lockheed Martin and Northrop.

GEC was seen as a possible beneficiary as it could buy a US company, and its shares achieved one of the best FTSE 100 performances as they rose 21 to 469p.

Its putative merger partner, British Aerospace, was pushed through the £20 level and rose 52 to £20.15. BAe was helped by a story that Airbus Industrie had secured contracts for 179 aircraft for sale to South America.

Engineering-related stocks shone despite the continued strength of sterling, which remained above DM3.06. Two sets of figures highlighted the trend of results easing investor fears related to the effect of the strong pound.

Glynwed International achieved the best performance in the FTSE 350 as the stock appreciated 33 to 294½p, a gain of almost 13 per cent. The brisk 6m traded highlighted the investor interest.

While the results were ahead of analysts' figures, the rise was said to be powered by the announcement of a change in strategy and the possibility of £300m of disposals that would boost the engineer's war chest.

One sector specialist said: "We shall see the sale of the underperforming metals side and the quality of this company will shine through." Investor sentiment was also helped by the announcement of a buy-back programme.

Meggitt also shrugged off the strong pound, with traders saying that it had lost less than £1m in its profits due to currency effects. The stock gained 6 to 210½p.

## BT worst

British Telecommunications was not only the worst performing Footsie stock but also one of the busiest trades in the premier listings, amid talk of a change of recommendation and general profit-taking.

A leading broker was said to have lowered its rating on the stock while profit-taking after the shares hit an all-time high last week also weakened the stock leaving it to close 25 off at 656p.

BT said the cost of some local UK calls would come down by 10 per cent from the end of April, although analysts said they expected the move to have little direct impact on the share price.

Cable & Wireless hardened 3½ to 737½p but mobile phone operators Orange and Vodafone Group were a weak market. The former eased 2 to 410p and the latter 14 to 582p.

Brammer gained 25½ to 585½p after the industrial services group announced a 10 per cent pre-tax rise to £30.5m, slightly ahead of a consensus of analysts' forecasts.

Britannic Assurance raced higher, closing 43½ ahead at a record closing level of £13.56, in the wake of excellent preliminary results, showing doubled profits and a 20 per cent increase in the dividend.

Other life stocks also made rapid progress, United Assurance moving up 18½ to 605p and London & Manchester 14 at 595p. Prudential gained 14 to 950p, Legal & General 13 to 595p, and Norwich Union 11 to 477p.

The bull run in information technology stocks showed no signs of easing, with the giant in the sub-sector, Misys, busting through the £30 level. It closed up 100 at £30 after a series of presentations to analysts that was received positively. Dresdner Kleinwort Benson talked of a price target of £36.80.

Investor enthusiasm for IT stocks was highlighted by the gain of 70 to 545p at Quality Software following its strong figures. The software company lifted the pre-tax line from £28,000 to £2.6m, exceeding the £2m expected.

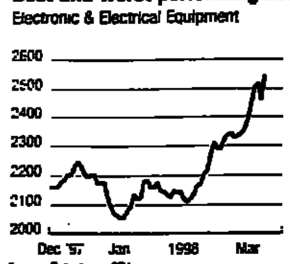
Graham Brown at Sutherlands said: "Turnover growth at 10.4 per cent was slightly below expectations, partly due to the effect of currency translation, but I was encouraged by the cost control."

Other IT shares also made advances, with London Bridge Software rising 12½ to 982½p and Sherwood International 67½ to 880p.

Rolfe & Nolan shares were unchanged at 507½p: under terms of the agreed bid from Sunguard, the US group, holders will receive the equivalent of 542p for each Rolfe & Nolan share at the current dollar exchange rate.

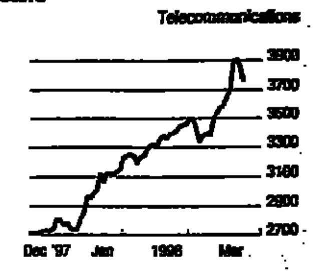
**Best and worst performing sectors**

Electronic & Electrical Equipment



Source: Datastream/ICV

Telecommunications



## FT 30 INDEX

| | Mar 24 | Mar 23 | Mar 20 | Mar 19 | Mar 18 | Yr ago | *High | *Low |
|---|---|---|---|---|---|---|---|---|
| FT 30 | 3796.7 | 3768.1 | 3771.5 | 3796.7 | 3763.2 | 2823.1 | 3796.7 | 3766.1 |
| Ord. div. yield | 2.91 | 2.93 | 2.92 | 2.90 | 2.92 | 3.93 | 4.22 | 2.90 |
| P/E ratio net | 24.40 | 24.21 | 24.25 | 24.48 | 24.30 | 16.90 | 24.48 | 15.80 |
| P/E ratio nil | 24.19 | 24.00 | 24.03 | 24.26 | 24.08 | 16.73 | 24.26 | 15.71 |

FT 30 since compilation: high 3798.7 19/03/98; low 49.4 26/06/40 Base Date 1/7/35

FT 30 hourly changes

| Open | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | High | Low |
|---|---|---|---|---|---|---|---|---|---|---|
| 3768.1 | 3777.3 | 3791.8 | 3794.1 | 3792.1 | 3798.5 | 3803.0 | 3801.1 | 3785.1 | 3803.3 | 3766.1 |



## STOCK MARKET TRADING DATA

| | Mar 24 | Mar 23 | Mar 20 | Mar 19 | Mar 18 | Yr ago |
|---|---|---|---|---|---|---|
| SEAQ bargains | 74,310 | 78,118 | 111,047 | 72,633 | 71,770 | 65,045 |
| Equity turnover (£m)† | - | 3138.8 | 3279.4 | 3558.0 | 3288.1 | 2813.9 |
| Equity bargains† | - | 70,466 | 71,899 | 65,454 | 63,708 | 65,520 |
| Shares traded (m)† | - | 860.1 | 830.4 | 904.3 | 927.7 | 1149.2 |
| Total market bargains‡ | - | 86,030 | 104,114 | 76,053 | 77,016 | na |
| Total turnover (£m)‡ | - | 4456.4 | 4962.3 | 4829.6 | 4681.5 | na |
| Total shrs traded (m)‡ | *1120.0 | ‡1136.6 | ‡1120.4 | ‡1141.0 | ‡1170.3 | na |
| Tradepoint turnover (£m) | 31.5 | 33.9 | 43.7 | 24.6 | 28.7 | 2.0 |
| Tradepoint shrs traded | 8,220 | 9,800 | 12,086 | 8,863 | 9,391 | 308 |

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

**London market data**

| Rises and falls* | | 52 Week highs and lows | | LIFFE Equity options | |
|---|---|---|---|---|---|
| Total Rises | 916 | Total Highs | 293 | Total contracts | 30,888 |
| Total Falls | 734 | Total Lows | 26 | Calls | 16,029 |
| Same | 1,360 | | | Puts | 14,859 |

Mar 24 *Data based on Equity shares listed on the London Share Service.

## FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 6026.0 | 6035.0 | +7.0 | 6063.0 | 6010.0 | 17641 | 155544 |
| Sep | 6107.0 | 6112.0 | +8.0 | 6107.0 | 6107.0 | 250 | 2585 |

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Jun | 5574.0 | 5574.0 | +1.0 | 5574.0 | 5574.0 | 33 | 4464 |

FTSE 100 INDEX OPTION (LIFFE) (*5858) £10 per full index point

[illegible]

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

† Long dated expiry months

## LONDON RECENT ISSUES: EQUITIES

[illegible]

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

## RIGHTS OFFERS

| Issue price p | Amount paid up | Latest Renun. date | 1997/98 High | Low | Stock | Closing price p | +or- |
|---|---|---|---|---|---|---|---|
| 180 | Nil | 8/4 | [illegible] | [illegible] | Pavegen | [illegible] | [illegible] |
| 3 | Nil | 3/4 | [illegible] | [illegible] | Pilkington | [illegible] | [illegible] |
| 235 | Nil | 8/4 | [illegible] | [illegible] | Westbury | [illegible] | [illegible] |

## FTSE GOLD MINES INDEX

| | Mar 24 | % chg on day | Mar 23 | Year ago | Gross div yield % | P/E ratio | 52 week High | Low |
|---|---|---|---|---|---|---|---|---|
| Gold Mines Index (22) | 1057.95 | +0.5 | 1053.14 | 1735.30 | 2.32 | - | 1735.30 | 894.23 |
| Regional indices | | | | | | | | |
| Africa (14) | 855.12 | +2.1 | 835.73 | 2005.54 | 5.75 | 17.62 | 2085.54 | 821.75 |
| Australasia (7) | 1285.44 | +0.5 | 1278.57 | 1873.82 | 2.68 | 17.18 | 1873.82 | 933.63 |
| North America (11) | 1078.21 | +7.6 | 1002.07 | 1608.99 | 1.13 | 40.30 | 1608.99 | 894.26 |



## FTSE Actuaries Share Indices

Produced in conjunction with the Faculty and Institute of Actuaries

The UK Series

| | Mar 24 | Day's chge% | Mar 23 | Mar 20 | Year ago | Gross yield% | Net yield% | Cover | P/E ratio | Xd adj. ytd | Total Return |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FTSE 100 | 5963.7 | +0.6 | 5947.0 | 5956.3 | 4270.7 | 2.72 | 2.31 | 2.06 | 22.09 | 45.07 | 2603.72 |
| FTSE 250 | 5523.3 | - | 5525.5 | 5516.0 | 4552.7 | 2.96 | 2.49 | 2.10 | 20.67 | 24.85 | 2349.99 |
| FTSE 250 ex IT | 5562.5 | - | 5564.6 | 5554.1 | 4591.8 | 3.05 | 2.57 | 2.17 | 18.90 | 25.76 | 2375.23 |
| FTSE 350 | 2872.2 | +0.5 | 2858.1 | 2860.8 | 2109.4 | 2.76 | 2.34 | 2.09 | 21.69 | 20.01 | 2552.42 |
| FTSE 350 ex IT | 2878.8 | +0.5 | 2862.5 | 2865.2 | - | 2.78 | 2.36 | 2.10 | 21.45 | 20.28 | 1311.32 |
| FTSE 350 Higher Yield | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FTSE 350 Lower Yield | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FTSE SmallCap | 2613.81 | +0.1 | 2610.47 | 2607.93 | 2311.69 | 2.67 | 2.22 | 1.62 | 25.84 | 9.29 | 2258.65 |
| FTSE SmallCap ex IT | 2607.66 | +0.2 | 2603.01 | 2599.87 | 2226.68 | 3.07 | 2.46 | 1.69 | 24.08 | 8.89 | 2272.29 |
| FTSE All-Share | 2798.85 | +0.5 | 2785.72 | 2788.02 | 2082.62 | 2.77 | 2.34 | 2.06 | 21.94 | 18.90 | 2223.90 |
| FTSE All-Share ex IT | 2806.04 | +0.5 | 2792.52 | 2794.87 | - | 2.78 | 2.36 | 2.06 | 21.57 | 19.23 | 1301.80 |

FTSE Actuaries Industry Sectors

[illegible]

**Hourly movements**

| | Open | 9.00 | 10.00 | 11.00 | 12.00 | 13.00 | 14.00 | 15.00 | 16.10 | High/day | Low/day |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FTSE 100 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FTSE 250 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FTSE 350 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FTSE SmallCap | 2611.49 | 2612.11 | 2613.08 | 2613.77 | 2614.40 | 2614.62 | 2614.46 | 2614.05 | 2613.75 | 2615.10 | 2611.49 |
| FTSE All-Share | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |



FTSE INTERNATIONAL

## TRADING VOLUME

**Major Stocks yesterday**

[illegible]

Highs & Lows shown on a 52 week basis

# WORLD STOCK MARKETS

## EUROPE

AUSTRIA (Mar 24 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Mar 24 / Frs.)

[illegible]

CZECH REP (Mar 24 / Koruna)

[illegible]

DENMARK (Mar 24 / Kr)

[illegible]

FINLAND (Mar 24 / Mka)

[illegible]

FRANCE (Mar 24 / Frs.)

[illegible]

GERMANY (Mar 24 / Dm.)

[illegible]

GREECE (Mar 24 / Drachma)

[illegible]

ITALY (Mar 24 / Lira)

[illegible]

NETHERLANDS (Mar 24 / Fls.)

[illegible]

NORWAY (Mar 24 / Kroner)

[illegible]

POLAND (Mar 24 / Zloty)

[illegible]

PORTUGAL (Mar 24 / Escudo)

[illegible]

SPAIN (Mar 24 / Pts.)

[illegible]

SWEDEN (Mar 24 / Kronor)

[illegible]

SWITZERLAND (Mar 24 / Frs.)

[illegible]

TURKEY (Mar 24 / Tk Lira)

[illegible]



## PACIFIC

JAPAN (Mar 24 / Yen)

[illegible]

AUSTRALIA (Mar 24 / Aust$)

[illegible]

HONG KONG (Mar 24 / H.K.$)

[illegible]

INDONESIA (Mar 24 / Rupiah)

[illegible]

MALAYSIA (Mar 24 / MYR)

[illegible]

NEW ZEALAND (Mar 24 / NZ $)

[illegible]

SINGAPORE (Mar 24 / S$)

[illegible]

SOUTH KOREA (Mar 24 / Won)

[illegible]

TAIWAN (Mar 24 / TW $)

[illegible]

THAILAND (Mar 24 / Baht)

[illegible]

## AFRICA

SOUTH AFRICA (Mar 24 / Rand)

[illegible]

## AMERICAS

TORONTO (Mar 24 / Can $) 4 pm close

[illegible]

MONTREAL (Mar 24 / Can $) 4 pm close

[illegible]

MEXICO (Mar 24 / Peso) 12.00pm

[illegible]

## FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

| NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock | MONDAY MARCH 23 1998 US Dollar Index | Day's Change % | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | Local % chg on day | Gross Div Yield | FRIDAY MARCH 20 1998 US Dollar Index | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | DOLLAR INDEX 52 week High | 52 week Low | Year ago (approx) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia (73) | 216.13 | 0.7 | 191.10 | 178.03 | 205.42 | 215.50 | 0.3 | 3.61 | 214.65 | 191.23 | 176.97 | 204.70 | 214.94 | 243.87 | 190.26 | 217.59 |
| Austria (23) | 212.72 | 0.3 | 188.09 | 175.22 | 202.16 | 202.04 | 0.0 | 1.61 | 211.98 | 188.85 | 174.78 | 202.15 | 201.99 | 213.59 | 175.14 | 185.54 |
| Belgium (26) | 309.77 | 0.9 | 273.90 | 255.16 | 294.42 | 288.07 | 0.6 | 2.45 | 306.98 | 273.46 | 253.06 | 292.72 | 286.42 | 309.77 | 227.73 | 230.70 |
| Brazil (30) | 268.60 | 1.3 | 237.50 | 221.24 | 255.29 | 560.80 | 1.3 | 1.54 | 265.18 | 236.24 | 218.62 | 252.88 | 553.67 | 322.44 | 184.94 | 237.48 |
| Canada (120) | 242.77 | 1.1 | 214.66 | 199.97 | 230.74 | 249.34 | 1.1 | 1.61 | 240.03 | 213.84 | 197.89 | 228.90 | 246.51 | 242.77 | 178.27 | 192.96 |
| Denmark (34) | 497.55 | 0.7 | 439.94 | 409.84 | 472.90 | 471.55 | 0.3 | 1.27 | 494.24 | 440.31 | 407.47 | 471.32 | 470.05 | 497.55 | 348.27 | 363.24 |
| Finland (28) | 370.28 | -0.4 | 327.40 | 305.00 | 351.93 | 431.23 | -0.6 | 2.09 | 371.84 | 331.26 | 306.55 | 354.59 | 434.01 | 378.27 | 243.25 | 256.29 |
| France (79) | 285.40 | 0.1 | 252.36 | 235.09 | 271.26 | 274.33 | -0.2 | 2.09 | 285.01 | 253.91 | 234.97 | 271.80 | 274.87 | 285.40 | 209.81 | 218.51 |
| Germany (58) | 264.15 | -0.2 | 233.56 | 217.58 | 251.06 | 251.06 | -0.6 | 1.29 | 264.80 | 235.90 | 218.31 | 252.52 | 252.52 | 265.44 | 193.39 | 198.46 |
| Hong Kong, China (66) | 356.87 | -0.3 | 315.55 | 293.96 | 339.19 | 354.98 | -0.3 | 4.49 | 357.95 | 318.89 | 295.10 | 341.35 | 356.03 | 580.03 | 262.93 | 455.87 |
| Indonesia (27) | 53.06 | 6.7 | 46.91 | 43.70 | 50.43 | 294.56 | 0.0 | 2.29 | 49.75 | 44.32 | 41.01 | 47.44 | 294.51 | 254.90 | 27.67 | 229.05 |
| Ireland (16) | 520.71 | 0.2 | 460.42 | 428.91 | 494.91 | 533.92 | -0.1 | 1.86 | 519.43 | 462.75 | 428.23 | 495.34 | 534.58 | 520.71 | 321.64 | 323.95 |
| Italy (54) | 154.32 | 1.0 | 136.45 | 127.11 | 146.67 | 207.52 | 0.8 | 1.18 | 152.78 | 138.11 | 125.95 | 145.69 | 205.85 | 154.32 | 83.46 | 84.67 |
| Japan (481) | 99.76 | -0.2 | 88.21 | 82.17 | 94.82 | 82.17 | -0.3 | 0.97 | 99.98 | 89.05 | 82.41 | 95.33 | 82.41 | 141.12 | 88.52 | 116.50 |
| Malaysia (107) | 230.32 | 4.4 | 203.65 | 189.71 | 218.90 | 313.15 | 0.9 | 2.20 | 220.52 | 196.46 | 181.81 | 210.30 | 310.21 | 624.32 | 113.56 | 620.03 |
| Mexico (29) | 1667.52 | 3.3 | 1474.44 | 1373.55 | 1584.91 | 15567.26 | 2.8 | 1.46 | 1613.73 | 1437.65 | 1330.41 | 1538.90 | 15147.14 | 1901.98 | 1328.20 | 1356.84 |
| Netherlands (19) | 481.06 | 1.6 | 425.36 | 396.25 | 457.22 | 452.38 | 1.2 | 2.02 | 473.58 | 421.90 | 390.43 | 451.62 | 446.88 | 481.06 | 330.32 | 342.74 |
| New Zealand (14) | 75.45 | -1.5 | 66.71 | 62.15 | 71.71 | 71.25 | -1.6 | 4.58 | 76.63 | 68.27 | 63.18 | 73.08 | 72.39 | 96.47 | 71.49 | 84.51 |
| Norway (38) | 332.19 | 2.5 | 293.73 | 273.63 | 315.73 | 340.77 | 1.7 | 1.83 | 324.20 | 288.82 | 267.28 | 309.16 | 335.08 | 374.64 | 281.62 | 305.39 |
| Philippines (22) | 104.81 | 1.2 | 92.67 | 86.33 | 99.61 | 197.17 | 1.1 | 1.04 | 103.57 | 92.27 | 85.38 | 98.77 | 194.97 | 196.90 | 57.54 | 194.82 |
| Singapore (42) | 240.44 | -0.6 | 212.60 | 198.05 | 228.53 | 177.45 | -0.8 | 1.81 | 241.78 | 215.40 | 199.33 | 230.57 | 178.89 | 402.07 | 144.01 | 383.75 |
| South Africa (43) | 288.09 | -0.4 | 254.73 | 237.30 | 273.81 | 313.64 | -0.4 | 2.80 | 289.35 | 257.77 | 238.55 | 275.93 | 314.85 | 365.52 | 227.66 | 360.90 |
| Spain (33) | 367.48 | 1.8 | 324.93 | 302.70 | 349.27 | 431.50 | 1.5 | 1.67 | 361.15 | 321.75 | 297.75 | 344.41 | 425.29 | 367.48 | 210.11 | 210.84 |
| Sweden (49) | 561.75 | 0.5 | 496.70 | 462.71 | 533.92 | 660.50 | 0.0 | 1.77 | 558.21 | 498.19 | 461.03 | 533.28 | 660.45 | 562.59 | 405.00 | 425.28 |
| Switzerland (37) | 390.82 | 0.9 | 345.56 | 321.92 | 371.45 | 361.52 | 0.4 | 1.07 | 387.32 | 345.06 | 319.32 | 369.38 | 359.95 | 394.78 | 250.76 | 251.60 |
| Thailand (39) | 33.66 | 5.0 | 29.76 | 27.73 | 31.99 | 50.30 | 1.9 | 6.20 | 32.06 | 28.56 | 26.43 | 30.57 | 49.34 | 84.87 | 13.10 | 79.27 |
| United Kingdom (210) | 390.28 | 0.6 | 345.09 | 321.47 | 370.94 | 345.09 | -0.1 | 2.84 | 387.95 | 345.62 | 319.84 | 369.96 | 345.62 | 390.58 | 272.12 | 273.22 |
| USA (638) | 447.16 | -0.4 | 395.38 | 368.33 | 425.01 | 447.16 | -0.4 | 1.42 | 448.83 | 399.86 | 370.03 | 428.02 | 448.83 | 448.83 | 298.79 | 318.34 |
| Americas (817) | 405.78 | -0.3 | 358.79 | 334.24 | 385.67 | 342.58 | -0.3 | 1.43 | 406.83 | 362.44 | 335.41 | 387.97 | 343.49 | 406.83 | 274.59 | 291.42 |
| Europe (898) | 343.53 | 0.6 | 303.75 | 282.96 | 326.51 | 326.97 | 0.1 | 2.05 | 341.41 | 304.16 | 281.47 | 325.58 | 326.56 | 343.53 | 238.44 | 240.27 |
| Nordic (149) | 488.84 | 0.5 | 432.24 | 402.66 | 464.62 | 504.14 | 0.1 | 1.75 | 486.32 | 433.25 | 400.94 | 463.77 | 503.66 | 488.84 | 355.77 | 369.84 |
| Pacific Basin (871) | 111.43 | 0.0 | 98.52 | 91.78 | 105.91 | 92.41 | -0.2 | 1.61 | 111.43 | 99.27 | 91.87 | 106.27 | 92.62 | 158.99 | 95.32 | 135.90 |
| Euro-Pacific (1569) | 208.19 | 0.4 | 184.09 | 171.49 | 197.88 | 180.65 | 0.0 | 1.91 | 207.32 | 184.70 | 170.92 | 197.70 | 180.63 | 209.12 | 172.03 | 179.37 |
| North America (758) | 434.19 | -0.3 | 383.92 | 357.65 | 412.68 | 433.87 | -0.3 | 1.42 | 435.52 | 388.00 | 359.06 | 415.33 | 435.19 | 435.52 | 292.34 | 310.71 |
| Europe Ex. UK (488) | 310.29 | 0.6 | 274.36 | 255.59 | 294.92 | 308.18 | 0.3 | 1.60 | 308.35 | 274.70 | 254.21 | 294.05 | 307.32 | 310.29 | 213.38 | 216.94 |
| Pacific Ex. Japan (390) | 214.29 | 0.6 | 189.47 | 176.51 | 203.67 | 211.50 | 0.0 | 3.68 | 212.94 | 189.71 | 175.56 | 203.07 | 211.51 | 318.98 | 161.31 | 299.09 |
| World Ex. US (1791) | 212.17 | 0.5 | 187.60 | 174.76 | 201.65 | 187.93 | 0.1 | 1.90 | 211.15 | 188.11 | 174.08 | 201.35 | 187.73 | 212.89 | 175.30 | 183.06 |
| World Ex. UK (2219) | 278.24 | 0.0 | 246.02 | 229.18 | 264.45 | 254.51 | -0.1 | 1.50 | 278.30 | 247.94 | 229.44 | 265.40 | 254.87 | 278.30 | 211.16 | 221.62 |
| World Ex. Japan (1948) | 381.34 | 0.1 | 337.18 | 314.11 | 362.44 | 375.21 | -0.1 | 1.73 | 381.06 | 339.48 | 314.16 | 363.39 | 375.67 | 381.34 | 271.90 | 282.15 |
| The World Index (2429) | 287.69 | 0.0 | 254.38 | 236.97 | 273.44 | 262.69 | -0.1 | 1.65 | 287.56 | 256.19 | 237.08 | 274.23 | 263.06 | 287.69 | 216.61 | 228.06 |

 CONSTITUENT CHANGE 23/3/98: Name change: Adidas AG to Adidas-Salomon AG (Germany). CONSTITUENT CHANGES WITH EFFECT 25/3/98: Deletions: Cacteles Metalicos SA (Spain), Green Cross Corporation (Japan) and Vendome Luxury Group (UK).

## Emerging markets: IFC investable indices

[illegible]

# NEW YORK STOCK EXCHANGE PRICES

*4 pm close March 24*

| 1997/98 High | Low | Stock | Div | Yld % | P/E | Vol 100s | High | Low | Close Quote | Chng Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| [illegible] | | | | | | | | | | |

- A -

[illegible]

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

[illegible]

- G -

[illegible]

- H -

[illegible]

- I -

[illegible]

- J -

[illegible]

- K -

[illegible]

- L -

[illegible]

- M -

[illegible]

- N -

[illegible]

- O -

[illegible]

- P - Q -

[illegible]

- R -

[illegible]

- S -

[illegible]

- T -

[illegible]

- U -

[illegible]

- V -

[illegible]

- W -

[illegible]

- X - Y - Z -

[illegible]

*Price data supplied by Extel, part of FT Information.*

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial. d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. # Dealings suspended.

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# GLOBAL EQUITY MARKETS

## US INDICES

[illegible]

| | Mar 24 | Mar 23 | Mar 20 | 1997/98 High | 1997/98 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Utilities | 287.40 | 285.66 | 281.78 | 287.40 (23/3/98) | 209.47 (25/4/97) | 287.40 (23/3/98) | 10.53 (8/7/32) |

DJ Ind. Day's High 8839.31 (8867.25) Low 8758.71 (8799.43) (Theoretical♦)
Day's High 8888.95 (8913.41) Low 8807.28 (8803.30) (Actual♦)

| Standard and Poors | Mar 24 | Mar 23 | Mar 20 | 1997/98 High | 1997/98 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Composite‡ | 1095.55 | 1099.16 | 1089.74 | 1099.16 (20/3/98) | 737.01 (2/1/97) | 1099.16 (20/3/98) | 4.40 (1/6/32) |
| Industrials♥ | 1271.71 | 1272.59 | 1260.82 | 1272.59 (20/3/98) | 885.42 (11/4/97) | 1272.59 (20/3/98) | 3.52 (30/6/32) |
| Financial♥ | 133.54 | 135.52 | 134.89 | 135.52 (20/3/98) | 80.75 (2/1/97) | 135.52 (20/3/98) | 7.13 (4/9/74) |
| Others | | | | | | | |
| NYSE Comp. | 570.54 | 572.61 | 567.38 | 572.61 (20/3/98) | 389.47 (11/4/97) | 572.61 (20/3/98) | 4.64 (25/4/42) |
| Amex Comp | 735.27 | 727.79 | 726.80 | 735.27 (23/3/98) | 541.20 (28/4/97) | 735.27 (23/3/98) | 524.20 (16/7/98) |
| NASDAQ Comp | 1792.51 | 1789.16 | 1799.98 | 1799.98 (19/3/98) | 1201.00 (2/4/97) | 1799.98 (19/3/98) | 54.87 (3/10/74) |
| Russell 2000 | 473.86 | 474.25 | 474.30 | 474.30 (19/3/98) | 335.85 (25/4/97) | 474.30 (19/3/98) | 123.36 (7/12/93) |

### ■ RATIOS

| | Mar 20 | Mar 13 | Mar 6 | Year ago |
|---|---|---|---|---|
| Dow Jones Ind. Div. Yield | 1.57 | 1.63 | 1.63 | 1.89 |

| | Mar 18 | Mar 11 | Mar 4 | Year ago |
|---|---|---|---|---|
| S & P Ind. Div. yield | 1.35 | 1.36 | 1.39 | 1.78 |
| S & P Ind. P/E ratio | 29.80 | 29.26 | 28.76 | 22.38 |

## US DATA

### ■ TRADING ACTIVITY

[illegible]

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| NASDAQ | 738.589 | 762.798 | 783.673 | New Lows | 23 | 13 | 13 |

### ■ NYSE TRADING ACTIVITY — Volume : 831,358,000

#### ■ ACTIVE STOCKS

| Monday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| Compaq | 18,002,900 | 24⅞ | +1¼ |
| Hallbtn | 7,096,600 | 51⅞ | +3⅞ |
| Schlmb | 6,818,100 | 78¼ | +4⅞ |
| Pfizer | 5,746,400 | 96 | +3¾ |
| Exxon | 5,008,200 | 68¾ | +1⅞ |
| Mobil | 4,318,900 | 79¼ | +⅞ |
| PhMorr | 4,196,600 | 42⅞ | −½ |
| SBC Cm | 3,690,700 | 45 | +⅞ |
| Dresser | 3,631,400 | 49¾ | +3⅞ |
| DiamOShr | 3,605,100 | 48⅞ | +1¾ |

#### ■ BIGGEST MOVERS

| Monday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| Ups | | | |
| PrideInt | 23⅞ | +2⅞ | +13.4 |
| Varco Intl | 27⅞ | +3⅛ | +12.9 |
| Coeur Dal | 12⅞ | +1¼ | +10.3 |
| Hmstkfd | 10¾ | +⅞ | +10.1 |
| Downs | | | |
| CircusCirc | 21¾ | −2¼ | −10.3 |
| Airbrn Frt | 35¾ | −3⅞ | −8.9 |
| Bancinc | 23⅞ | −2 | −7.7 |
| Alaska Air | 52⅞ | −4¼ | −7.2 |

### ■ NASDAQ TRADING ACTIVITY — Volume : 738,589,000

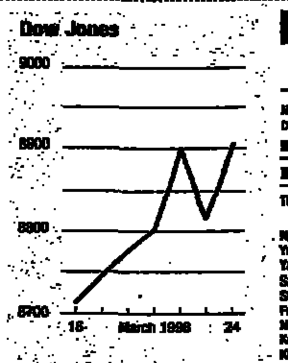
#### ■ ACTIVE STOCKS

| Monday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| Intel | 18,392,600 | 75⅛ | −⅞ |
| Oracle | 13,926,400 | 30⅛ | +1⅞ |
| Micsft | 13,720,800 | 83¾ | +2⅛ |
| CiscoSys | 11,429,800 | 64¾ | +1⅞ |
| DellComp | 11,033,000 | 82¼ | −⅛ |
| WrldCm | 8,921,200 | 43⅞ | |
| 3Com | 8,242,300 | 35¾ | +1⅞ |
| Quantum | 8,121,800 | 20¼ | +⅛ |
| ApplMat | 7,246,100 | 33⅞ | +⅛ |
| PattenEn | 6,411,300 | 12¼ | +2¼ |

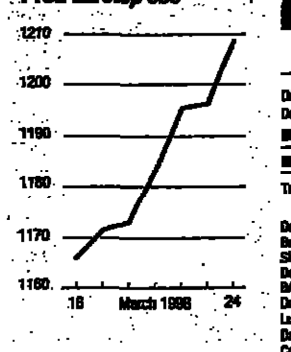
#### ■ BIGGEST MOVERS

| Monday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| Ups | | | |
| PattenEn | 12¼ | +2⅛ | +21.0 |
| Micrgrafx | 13⅛ | +1⅞ | +13.6 |
| FrGoldmn | 31⅛ | +3¾ | +13.1 |
| MveckTube | 17⅞ | +2 | +13.0 |
| Downs | | | |
| WFS Fin | 11 | −1⅞ | −14.6 |
| Comair | 26¼ | −3¼ | −10.6 |
| DactLog | 16¾ | −1⅞ | −9.3 |
| JetFest | 18⅛ | −1⅞ | −8.9 |

Dow Jones



FTSE Eurotop 300



## JAPAN

| | Mar 24 | Mar 23 | Mar 20 | 1997/98 High | 1997/98 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Nikkei 225 | 16606.39 | 16868.83 | 16830.47 | 20681.1 | 14664.4 | 38915.9 | 85.25 |

Day's high: 16766.53. Day's low: 16550.76.

### ■ TOKYO TRADING ACTIVITY — Volume : 476,080,000

#### ■ ACTIVE STOCKS

| Tuesday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| Np Steel Cp | 16,140,000 | 229 | −5 |
| Yamaichi Sec | 12,521,000 | 2 | |
| Yakult Hnsh | 8,362,000 | 574 | −46 |
| Sakura Bk | 6,857,000 | 495 | −8 |
| Sumo Mit Ind | 6,301,000 | 234 | +1 |
| Fuji Bank | 5,711,000 | 871 | −49 |
| Nomura Secs | 5,639,000 | 1550 | −80 |
| Kobe Steel | 5,611,000 | 117 | −1 |
| Kawaki Sk | 5,225,000 | 208 | −6 |
| Mitsui T & B | 4,679,000 | 370 | −11 |

#### ■ BIGGEST MOVERS

| Tuesday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| Ups | | | |
| Sokkia Co | 378 | +45 | +13.6 |
| Tokai Senko | 188 | +15 | +8.8 |
| Chkyo C Cola | 1100 | +80 | +7.8 |
| Kotobuki Foods | 605 | +43 | +7.7 |
| Downs | | | |
| Seikitsu Kgy | 161 | −29 | −15.3 |
| Mozaki & Co | 102 | −18 | −15 |
| Takei Prtb | 180 | −20 | −10 |
| Toa Wool Sp | 208 | −23 | −10 |

## GERMANY

| | Mar 24 | Mar 23 | Mar 20 | 1997/98 High | 1997/98 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| DAX | 5028.24 | 4971.32 | 5001.55 | 5028.24 | 2848.77 | 5028.24 | 931.18 |

Day's high: 5031.70. Day's low: 5007.07.

### ■ FRANKFURT TRADING ACTIVITY — Volume : 16,523,247

#### ■ ACTIVE STOCKS

| Tuesday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| Deutsche Tel | 1,658,015 | 41.35 | +1.45 |
| Bayer | 808,298 | 83.5 | +1.75 |
| Siemens | 775,848 | 121.4 | +0.5 |
| Deutsche Bk | 741,984 | 133.6 | |
| BASF | 610,380 | 74.22 | +1.62 |
| Dresdner Bk | 585,344 | 87.4 | +1.8 |
| Lufthansa | 504,385 | 37.8 | −0.3 |
| Daimler Benz | 502,421 | 170.8 | +2.3 |
| Commerzbk | 477,767 | 67.55 | +0.55 |
| Hoechst | 443,005 | 71 | +1.45 |

#### ■ BIGGEST MOVERS

| Tuesday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| Ups | | | |
| Lahmkoelg | 308 | +18 | +6.2 |
| Linde | 1351 | +76 | +6 |
| Downs | | | |
| Wayss & Fr | 200 | −43 | −17.7 |
| Singulus Tech | 192.5 | −34 | −15 |
| Ser Systems | 330 | −39 | −10.6 |
| Technotrans | 203 | −22.5 | −10 |
| Mobil Com | 1200 | −118 | −9 |
| Eff-Eff Fritz | 55 | −4.9 | −8.2 |

## FRANCE

| | Mar 24 | Mar 23 | Mar 20 | 1997/98 High | 1997/98 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| CAC 40 | 3738.54 | 3680.13 | 3688.91 | 3738.54 | 2256.97 | 3738.54 | 984.61 |

Day's high: 3746.40. Day's low: 3693.30.

### ■ PARIS TRADING ACTIVITY — Volume : 814,074,840

#### ■ ACTIVE STOCKS

| Tuesday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| France Tel | 3,079,155 | 315.5 | +10.3 |
| Axa-UAP | 2,138,925 | 642 | +4 |
| Rhone Pinc A | 2,086,075 | 277.5 | +1.5 |
| Cie F Paribas | 1,581,901 | 613 | +21 |
| Usinor | 1,458,896 | 104.9 | +1.1 |
| Bqe Natl Paris | 1,190,300 | 449.4 | +11.5 |
| Schneider | 1,137,589 | 437.6 | +23.6 |
| GAN Group | 994,146 | 175.6 | +5.8 |
| Renault (Reg) | 934,069 | 245 | −2 |
| Alcatel Als | 844,462 | 1070 | +10 |

#### ■ BIGGEST MOVERS

| Tuesday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| Ups | | | |
| Caisc Cap Aux | 52.1 | +31.85 | +157.3 |
| Sextant Avion | 350 | +129.9 | +59 |
| La Bruxelles | 617 | +57 | +10.2 |
| Petit Bateau | 31.5 | +2.85 | +9.9 |
| Ferm Therm V | 1231 | +111 | +9.9 |
| Downs | | | |
| Orfevre Chrst | 1070 | −228 | −17.6 |
| Pechiney Intl | 130 | −15 | −10.3 |
| Air France | 124.5 | −13.5 | −9.8 |

## UK

| | Mar 24 | Mar 23 | Mar 20 | 1997/98 High | 1997/98 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| FTSE 100 | 5983.7 | 5947.0 | 5956.3 | 5987.9 | 4056.6 | 5987.9 | 986.9 |

Day's high: 5993.7. Day's low: 5941.1.

### ■ LONDON TRADING ACTIVITY — Volume : 1,162,300,800

#### ■ ACTIVE STOCKS

| Tuesday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| Somerfield | 61,522,700 | 345½ | +7½ |
| Shell | 34,681,250 | 452½ | −½ |
| Emerald Engy | 24,004,210 | 6 | −1 |
| Mercury Wrld | 19,852,970 | 64¾ | |
| Taylor Nelson | 18,017,690 | 107¼ | −1¼ |
| Br Telecom | 14,040,500 | 656 | −25 |
| Aggregate | 12,741,180 | 67 | −¼ |
| BP | 12,387,840 | 907 | −28½ |
| Lucas Varity | 11,318,670 | 237 | +2 |
| Br Steel | 10,968,080 | 148½ | |

#### ■ BIGGEST MOVERS

| Tuesday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| Ups | | | |
| Theo Fennell | 50 | +17½ | +53.9 |
| Environmed | 14 | +4 | +40 |
| Ben Bailey | 95½ | +18 | +23.2 |
| Auto Precision | 25 | +4½ | +22 |
| Downs | | | |
| RAP | 22½ | −14 | −38.4 |
| Safeland | 55 | −10½ | −16 |
| Allied Text | 158½ | −25 | −13.8 |
| Hewitt Wilting | 52½ | −8 | −13.2 |

## INDEX FUTURES

| ■ S&P 500 | Open | Sett price | Change | High | Low | Est. vol. | Open Int. |
|---|---|---|---|---|---|---|---|
| Jun | 1107.80 | 1110.60 | +2.30 | 1111.00 | 1107.30 | 82,374 | 352,246 |
| Sep | – | 1119.90 | – | – | – | 198 | 6,909 |
| ■ Nikkei 225 | Open | Sett price | Change | High | Low | Est. vol. | Open Int. |
| Jun | 16710.0 | 16590.0 | −230.0 | 16720.0 | 16490.0 | 18,471 | 187,047 |
| Sep | 16600.00 | 16600.0 | – | 16610.0 | 16610.0 | 2 | 13,185 |

Open interest figures for previous day.

| ■ CAC-40 (200 x Index) | Open | Sett Price | Change | High | Low | Est. vol. | Open Int. |
|---|---|---|---|---|---|---|---|
| Mar | 3689.0 | 3755.0 | +58.0 | 3760.0 | 3681.0 | 18,088 | 46,786 |
| Apr | 3692.0 | 3756.0 | +57.5 | 3760.5 | 3685.5 | 3,087 | 5,287 |
| ■ DAX | | | | | | | |
| Jun | 5026.5 | 5096.4 | +42.5 | 5098.5 | 5023.0 | 16,510 | 108,444 |
| Sep | 5117.5 | 5141.0 | +36.5 | 5136.0 | 5101.0 | 588 | 16,226 |

| ■ OMX | Open | Sett Price | Change | High | Low | Est. vol. | Open Int. |
|---|---|---|---|---|---|---|---|
| Mar | 2920.00 | 2932.00 | −0.50 | 2952.50 | 2907.00 | 12,027 | 18,537 |
| Apr | 2911.50 | 2923.25 | +0.25 | 2939.75 | 2899.50 | 8,310 | 17,868 |
| ■ SOFFEX | | | | | | | |
| Apr | 7355.0 | 7425.0 | +58.0 | 7435.0 | 7342.1 | 5,048 | 22,271 |
| May | 7351.0 | 7391.0 | +56.9 | 7388.3 | 7351.0 | 46 | 472 |

## WORLD MARKETS AT A GLANCE

| Country | Index | Mar 24 | Mar 23 | Mar 20 | 1997/98 High | 1997/98 Low | Yield | P/E |
|---|---|---|---|---|---|---|---|---|
| [illegible] | | | | | | | | |
| Belgium | BEL20 | 3010.36 | 2985.17 | 2987.79 | 3010.36 24/3/98 | 1871.05 2/1/97 | 1.9 | 19.3 |
| *A combination of lower long term rates and firm corporate results provided support for shares.* | | | | | | | | |
| Brazil | Bovespa | 12033.0 | 12025.0 | 11919.0 | 13617.00 8/7/97 | 6955.60 2/1/97 | na | na |
| *Shares fluctuated in a narrow range ahead of Telebras' results announcement.* | | | | | | | | |
| Canada | TSE 100♦ | 459.26 | 457.50 | 452.14 | 457.58 23/3/98 | 342.12 11/4/97 | 1.5 | 22.2 |
| | Metals Minls♦ | 4209.34 | 4254.31 | 4183.22 | 5891.75 10/3/97 | 3442.36 12/1/98 | | |
| | Composite♦ | 7536.00 | 7510.20 | 7412.80 | 7510.20 23/3/98 | 5579.39 14/4/97 | | |
| | Portfolio§§ | 3834.35 | 3832.22 | 3785.35 | 3832.22 23/3/98 | 2848.82 11/4/97 | | |
| *Higher gold stocks boosted the index offsetting a decline in oil and gas shares.* | | | | | | | | |
| Chile | IGPA Gen♥ | 4822.36 | 4829.72 | 4853.44 | 5888.71 4/7/97 | 4243.47 27/1/98 | 2.6 | 16 |
| *Marginally lower on light profit taking.* | | | | | | | | |
| China | Shanghai B | 55.07 | 54.99 | 55.72 | 98.21 20/3/98 | 40.89 12/1/98 | 0.9 | 43.1 |
| | Shenzhen B | 95.21 | 95.72 | 98.44 | 184.28 6/5/97 | 77.98 12/1/98 | | |
| *Late buying by domestic institutions erased earlier losses in Shanghai B shares. Volume was a measly $3.15m.* | | | | | | | | |
| Colombia | IBB | (c) | (u) | 1145.62 | 1539.72 16/10/97 | 844.41 2/1/97 | na | na |
| Czech Republic | PX 50 | 515.9 | 517.3 | 515.5 | 629.80 25/2/97 | 452.40 4/2/98 | na | na |
| Denmark | CopenhagenSE | 754.01 | 746.88 | 744.39 | 754.01 24/3/98 | 470.14 2/1/97 | 1.2 | 23.4 |
| *Posted record close hiped by oil and telecommunication shares.* | | | | | | | | |
| Egypt | Cairo SE Gen | 387.28 | 387.6 | (c) | – – | – – | na | na |
| *Profit taking and position adjustment depressed shares slightly.* | | | | | | | | |
| Finland | HEX General | 4306.86 | 4342.87 | 4356.75 | 4378.14 19/3/98 | 2483.28 2/1/97 | 2.1 | 16.7 |
| *Sale of Sampo shares by MeritaNordbanken, a financial institution, weakened index.* | | | | | | | | |
| France | SBF 250 | 2405.19 | 2373.60 | 2380.85 | 2405.19 24/3/98 | 1633.19 2/1/97 | 2.2 | 20.8 |
| | CAC 40 | 3738.54 | 3680.13 | 3688.91 | 3738.54 24/3/98 | 2256.97 2/1/97 | | |
| *Shares driven higher with the CAC hitting a fresh record supported by a sharp rise in French Telecom.* | | | | | | | | |
| Germany | FAZ Aktien | 1618.79 | 1617.93 | 1613.70 | 1618.79 24/3/98 | 986.21 2/1/97 | 1.3 | 22.4 |
| | Commerzbank | 4791.10 | 4768.70 | 4777.90 | 4791.10 24/3/98 | 2875.90 2/1/97 | | |
| | DAX‡ | 5028.24 | 4971.32 | 5001.55 | 5028.24 24/3/98 | 2848.77 2/1/97 | | |
| *Market cheered by lower consumer price index data.* | | | | | | | | |
| Greece | Athens SE | 1922.86 | 1950.75 | 1919.91 | 1950.75 23/3/98 | 954.54 2/1/97 | 2.2 | 20.5 |
| | FTSE/ASE 20 | 1134.98 | 1148.34 | 1125.91 | 1148.34 23/3/98 | 765.18 29/1/98 | | |
| *Investors took profits after a six-day rise following the drachma's devaluation.* | | | | | | | | |
| Hong Kong | Hang Seng | 11645.43 | 11594.33 | 11564.23 | 16673.30 7/8/97 | 8121.06 12/1/98 | 3.5 | 11.2 |
| | HSCC Red Chip | 1704.17 | 1693.32 | 1689.58 | 4110.55 27/8/97 | 964.50 12/1/98 | | |
| *Better-than-expected land auction prices and easing interbank rates lifted sentiment. Properties outperformed.* | | | | | | | | |
| Hungary | Bux | 8711.25 | 8694.59 | 8786.63 | 8786.63 20/3/98 | 4281.30 6/1/97 | na | na |
| *Firmed on strong demand for Matav, the telecommunications company.* | | | | | | | | |
| India | BSE Sens. | 3927.87 | 3963.81 | 3840.40 | 4648.02 5/8/97 | 3289.55 28/1/98 | | |
| | Crisil 500 | 719.01 | 722.34 | 696.65 | 843.28 5/8/97 | 594.36 29/1/98 | na | na |
| *Market retreats as investors unwound long positions ahead of account settlements.* | | | | | | | | |
| Indonesia | Jakarta Comp. | 501.66 | 516.32 | 516.73 | 740.83 8/7/97 | 339.53 15/12/97 | 2.0 | 16.9 |
| *Sharp increases in banks' deposit rates left investors fleeing from stocks and falls overwhelmed rises by nearly 6 to 1.* | | | | | | | | |
| Ireland | ISEQ Overall | 5305.32 | 5294.25 | 5286.74 | 5294.25 23/3/98 | 2725.97 2/1/97 | 1.8 | 22.6 |
| *The index gained ground as investors shrugged off profit taking in Bank of Ireland.* | | | | | | | | |
| Israel | Tel Aviv 100 | 298.64 | 298.32 | (c) | 311.76 6/8/97 | 214.15 2/1/97 | na | na |
| *Down on decline in Israeli shares in New York and concerns over diplomatic relations with the US.* | | | | | | | | |
| Italy | BCI Comit 30 | 341.01 | 330.65 | 327.32 | 341.01 24/3/98 | 155.74 2/1/97 | 1.3 | 29.6 |
| | Banca Com Ital | 1484.17 | 1443.61 | 1424.84 | 1484.17 24/3/98 | 660.42 2/1/97 | | |
| | Mibtel General | 23722.0 | 23019.0 | 22792.0 | 23722.00 24/3/98 | 10498.80 2/1/97 | | |
| *Posted record high as investors continued to switch from bonds into equities.* | | | | | | | | |
| Japan | Nikkei 225 | 16606.39 | 16868.83 | 16830.47 | 20681.10 18/6/97 | 14664.40 12/1/98 | 0.9 | 41.9 |
| | Nikkei 300 | 243.24 | 246.16 | 246.75 | 303.71 28/7/97 | 224.85 12/1/98 | | |
| | Topix | 1239.01 | 1250.49 | 1255.06 | 1560.28 26/6/97 | 1128.61 12/1/98 | | |
| | 2nd Section | 1327.03 | 1327.37 | 1326.00 | 1848.25 30/6/97 | 1190.55 24/12/97 | | |
| *Shares reflected disappointment that upcoming economic package would not include income tax cuts to boost the economy.* | | | | | | | | |
| Jordan | Amman SE | 167.32 | 167.02 | (c) | – – | – – | na | na |
| *Trading in Arab Bank dominated activity. Sentiment improved after government withdrew draft law on savings funds.* | | | | | | | | |
| Malaysia | KLSE Comp. | 731.89 | 735.79 | 731.24 | 1271.57 25/2/97 | 477.57 12/1/98 | 2.2 | 14.8 |
| *Investors disappointed foreign ownership cap on local companies would not be cut and falls beat rises by over 4 to 1.* | | | | | | | | |
| Mexico | IPC | 5076.83 | 5042.06 | 4917.06 | 5368.46 21/10/97 | 3398.46 2/1/97 | 1.2 | 13.6 |
| *Shares reversed early slide caused by poor trade figures as investors pile into bank stocks.* | | | | | | | | |
| Morocco | CASA | 723.35 | 720.79 | 720.01 | 723.35 24/3/98 | 461.89 3/1/97 | na | na |
| *Marginally lower with Banque Commerciale du Maroc losing ground.* | | | | | | | | |
| Netherlands | CBS TRRtnGen | 1313.8 | 1310.4 | 1298.0 | 1313.80 24/3/98 | 780.80 2/1/97 | 1.8 | 23.2 |
| | CBS All Shr | 752.3 | 750.4 | 743.6 | 752.30 24/3/98 | 429.80 2/1/97 | | |
| *New closing high as late options related buying pushed up shares. Electronics stocks posted unexpected rise.* | | | | | | | | |
| New Zealand | Cap. 40 | 2315.53 | 2319.27 | 2350.02 | 2636.40 22/10/97 | 2262.81 28/10/97 | 3.9 | 18.5 |
| *Mixed trading on heavy turnover of NZ$174m which reflected Independent Newspaper's rasp up bid for Wilson and Horton.* | | | | | | | | |
| Nigeria | SE All-Share | 6307.58 | 6292.57 | 6310.95 | – – | – – | na | na |
| *Improved corporate results triggered a rally in blue chips.* | | | | | | | | |
| Norway | Oslo SE Ind | 2282.28 | 2281.89 | 2243.94 | 2287.58 22/10/97 | 1699.83 2/1/97 | 1.5 | 16.2 |
| *Edged down as rally in oil shares stalled.* | | | | | | | | |
| Pakistan | Karachi SE | 1512.25 | (c) | 1514.32 | 2067.98 22/10/97 | 1341.31 7/1/97 | na | na |
| *Violence in Karachi encouraged shares to an early low of 1,488 but a late rebound left rises beating falls by 3 to 2.* | | | | | | | | |
| Peru | Lima Gen | 1654.82 | 1630.92 | 1614.71 | 2289.40 10/7/97 | 1420.70 2/1/97 | na | na |
| Philippines | Manila Comp | 2305.06 | 2310.06 | 2274.14 | 3447.60 3/2/97 | 1518.00 9/1/98 | 1.2 | 15.3 |
| *Weakness in the property sector pulled the main index back, while in the broader market rises were in line with falls.* | | | | | | | | |
| Poland | WIG | 17631.2 | 17859.5 | 17969.6 | 18582.70 11/3/98 | 13228.80 12/1/98 | 1.0 | 14.5 |
| Portugal | BVL 30 | 5484.05 | 5390.45 | 5307.35 | 5484.05 24/3/98 | 2166.57 2/1/97 | 0.8 | 41.5 |
| | PSI 20 | 12747.16 | 12521.43 | 12312.55 | 12747.29 24/3/98 | 5152.34 2/1/97 | | |
| *Lower interest rates and hopes of joining EMU in the first wave supports confidence.* | | | | | | | | |
| Russia | RTS | 344.75 | 342.85 | 335.78 | 571.66 6/10/97 | 213.30 6/1/97 | na | na |
| *Up marginally as caution over the cabinet reform eroded some earlier gains.* | | | | | | | | |
| Singapore | SES All-S'pore | 432.91 | 431.69 | 433.76 | 573.83 17/2/97 | 324.92 12/1/98 | 2.0 | 16.8 |
| | Straits Times | 1640.54 | 1660.44 | 1679.11 | 2271.86 20/1/97 | 1073.47 12/1/98 | | |
| *Fell in sympathy with Malaysia after Malaysian finance minister's speech to parliament failed to impress investors.* | | | | | | | | |
| Slovakia | SAX | 137.89 | 136.36 | 137.28 | 208.84 21/3/97 | 135.80 16/3/98 | na | na |
| *A rise in oil refinery Slovnaft lifted overall index.* | | | | | | | | |
| South Africa | JSE Gold | 745.2♥ | 698.4 | 679.9 | 1588.10 27/2/97 | 679.16 5/12/97 | 2.5 | 15.5 |
| | JSE Indl. | 8537.8♥ | 8515.2 | 8615.2 | 9314.29 7/8/97 | 6715.10 12/1/98 | | |
| *Higher on rally in gold prices. Further enthusiasm over mergers fuelled buying in financial sector.* | | | | | | | | |
| South Korea | KoreaCmpEx** | 508.43 | 511.90 | 525.95 | 792.29 17/6/97 | 350.68 12/12/97 | 2.4 | 15 |
| *Recent strength of the won choked off foreign demand leaving shares drifting lower. Declines beat advances by 9 to 5.* | | | | | | | | |
| Spain | Madrid SE | 873.88 | 861.60 | 850.08 | 873.88 24/3/98 | 434.84 2/1/97 | 1.7 | 27.2 |
| *Strong gains in blue chip shares lifted index above resistance level.* | | | | | | | | |
| Sri Lanka | CSE All Share | 713.30 | 711.90 | 717.30 | 869.78 31/7/97 | 606.70 2/1/97 | na | na |
| *Buying by local retail investors pushed shares forward while institutions were quiet ahead of financial year end.* | | | | | | | | |
| Sweden | AffarsvarldsGen | 3581.2 | 3544.9 | 3541.8 | 3545.90 17/3/98 | 2378.50 2/1/97 | 1.5 | 25.6 |
| *Rally in telecoms lifted the market to a fresh high.* | | | | | | | | |
| Switzerland | SMI Index | 7407.4 | 7341.0 | 7300.5 | 7407.40 24/3/98 | 3922.90 7/1/97 | 1.0 | 29.5 |
| | SPI General | 4620.56 | 4583.24 | 4561.81 | 4620.56 24/3/98 | 2586.22 6/1/97 | na | na |
| *Posted record high but Roche down ahead of post-trading results announcement.* | | | | | | | | |
| Taiwan | WeightedPr.** | 8806.85 | 8757.59 | 8804.23 | 10116.80 26/8/97 | 6844.75 6/1/97 | 1.1 | 23.7 |
| *Electronics led the market higher, rebounding sharply in response to Nasdaq's rise.* | | | | | | | | |
| Thailand | Bangkok SET | 490.27 | 503.67 | 499.75 | 858.97 22/1/97 | 339.17 12/1/98 | 3.6 | 33.1 |
| *The strengthening baht hurt shares of exporters and reduced foreign buying.* | | | | | | | | |
| Turkey | IMKB Nat 100 | 3241.09 | 3266.81 | 3269.79 | 3711.40 5/1/98 | 995.00 2/1/97 | 1.7 | 21.5 |
| *Lost ground on election worries after opposition leader suggests withdrawal of support for government.* | | | | | | | | |
| Venezuela | IBC | 7851.75 | 7858.92 | 7572.01 | 10817.10 17/10/97 | 6661.69 12/3/97 | na | na |
| Zimbabwe | ZSE Industrial | 8160.25 | (c) | 8182.30 | 12062.60 5/8/97 | 6661.51 18/12/97 | na | na |
| WORLD | FT/S&P World(S) | (c) | 287.69 | 287.56 | 287.69 23/3/98 | 218.61 14/4/97 | na | na |
| | MS Capital IntS | 1065.9* | 1063.5 | 1062.9 | 1065.90 24/3/98 | 794.50 14/4/97 | na | na |
| CROSS-BORDER | DJ Stoxx 50 | 3231.13 | 3111.10 | 3066.06 | 3148.79 19/3/98 | 1823.55 2/1/97 | | |
| | DJ Euro Stx 50 | 3143.37 | 3209.33 | 3174.96 | 3209.33 23/3/98 | 1824.52 2/1/97 | | |
| | FTSE E300 | 1209.78 | 1197.88 | 1195.46 | 1209.78 24/3/98 | 874.08 28/10/97 | | |
| | FTSE E100 | 2789.52 | 2766.50 | 2748.83 | 2789.52 24/3/98 | 1582.89 2/1/97 | na | na |
| | HSBC JC Dgn | (c) | 272.84 | 271.63 | 434.83 6/8/97 | 180.25 12/1/98 | na | na |
| | ING Bngs Emg | 157.61 | 156.46 | 154.82 | 198.81 9/7/97 | 125.19 12/1/98 | na | na |

** Sat Mar 21: Taiwan Weighted Price 8858.08; Korea Comp Ex 521.82. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ XETRA-DAX after-hours index: Mar 24 5064.35 +50.22. † Correction. * Calculated at 15.00 GMT. ⊕ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation. Yields and P/E ratios are based on Datastream Total Market Indices. Midsession.

# THE NASDAQ STOCK MARKET

4 pm close March 24

| Stock | Div. | P/E | Vol 100s | High | Low | Last | Chng |
|---|---|---|---|---|---|---|---|
| [illegible] | | | | | | | |

# AMEX PRICES

4 pm close March 24

| Stock | Div. | P/E | Vol 100s | High | Low | Close | Chng |
|---|---|---|---|---|---|---|---|
| [illegible] | | | | | | | |

# EASDAQ

[illegible]

# STOCK MARKETS

## Low inflation and Emu push bourses higher

**WORLD OVERVIEW**

Another set of records across Europe indicated that it will take some remarkably bad news to halt the global bull market in equities, *writes Philip Coggan.*

The twin benefits of low inflation and Emu convergence continued to act as a powerful motor for European bourses, in particular.

In Spain, the yield on the 10-year government bond dipped below 5 per cent, a record low. An announcement today from the European Monetary Institute is expected to confirm that Spain will be one of the founder members of a single currency.

Further signs of the low level of European inflation came from Germany, where four federal states revealed annual inflation rates of 1 or 1.1 per cent.

Investors have every incentive to switch from low-yielding bonds and cash into equities, especially if they believe that European economies are set to grow more strongly and that corporate earnings will advance rapidly in the face of restructuring and an acceptance of "shareholder value" philosophy.

The FT/S&P European index is up 18.8 per cent in dollar terms this year and 102 per cent since the start of 1995.

The European team at ABN Amro comments: "We are distrustful of equity valuations. Even so, with commodity prices falling sharply through the first quarter and the risk of higher short-term interest rates receding, we see little to indicate that equity markets will peak in the second quarter."

The latest big number barrier to fall was 3,000 on the Bel-20 in Belgium, after the Dax's recent burst through the 5,000 level.

*The Frankfurt market* achieved another record close, as did bourses in Amsterdam, Madrid, Milan, Paris, Stockholm and Vienna. The Italian market was particularly strong, rising 3 per cent ahead of the expected backing for its euro membership.

Wall Street also opened strongly and the S&P 500 index chalked up a record intra-day high.

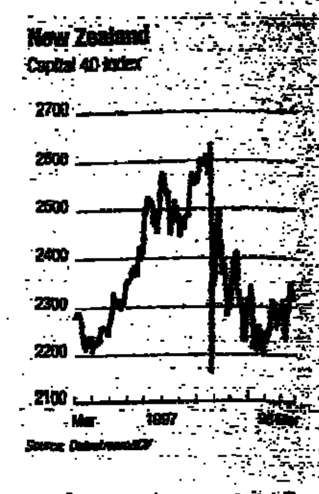
For once, a market outside Europe and the US also managed a peak. The Australian market reached its second consecutive all-time high as Monday's rally in the oil price and a pick-up in the gold price, which fixed above $300 an ounce in London, helped the country's natural resource stocks.

The Sydney market has suffered in the wake of the Asian crisis and has underperformed the FT/S&P World index, in dollar terms, by 24 per cent since the start of 1997.

London market, Page 34

**MARKET FOCUS**

## NZ investors shy from Brash




New Zealand
Capital 40 index

New Zealand investors are *steadfastly ignoring* last week's surprise bid by Don Brash, Reserve Bank governor, to reinvigorate the economy through an easing in monetary policy.

After an initial surge, equities this week resumed their recent pattern of dull trading. The 40 capital index closed on Tuesday at 2,315, just four points above the 2,311 recorded before the Brash announcement on March 17.

Thus the market is only 123 above the year's low of 2,192 set on January 28, and 153 higher than the 2,162 recorded when the market fell precipitously last October as the Asian crisis blew up.

The lack of progress reflects continuing low levels of national business and consumer confidence.

The problem is that the Reserve Bank wants the easing in monetary policy to be achieved by a fall in the New Zealand dollar rather than through lowering interest rates.

This is intended to help address the country's *growing current account deficit* by bolstering exports and inhibiting imports.

To achieve this, the Reserve Bank is prepared to let inflation rise from 1.6 per cent to 2.1 per cent by June, the first officially sanctioned rise since Mr Brash was appointed governor in 1988.

Over the past week, the New Zealand dollar has slipped by 2 cents against the US dollar, while key bank interest rates have gained half a percentage point, with the 90-day rate now up to 9.21 per cent.

To locals, the rises in domestic mortgage and borrowing costs suggest a further tightening rather than an easing in monetary policy – and imply that the profitability of much of the corporate sector will remain under pressure. High real interest rates also encourage people to put money in the bank, rather than risk it in the equity market.

There are deep concerns about Asia, as Indonesia, Malaysia, South Korea and Japan are major buyers of New Zealand goods. Investors appear to be ignoring the *potential benefits* that should flow towards company earnings from tax cuts due in July, and the lift in earnings that exporters should achieve from the softer New Zealand dollar.

Among individual shares, Telecom NZ has been the *star performer*. It has gained over a dollar a share to NZ$8.85 since March 5. Telecom's fortunes improved after signs that the NZ$3.6bn international placement of a 24.9 per cent shareholding by US phone company Ameritech is proving successful.

Other leaders are in the doldrums. Brierley Investments fell to a year's low of NZ$1.09 on Tuesday, mainly due to falling tourist traffic which has hit two of its main subsidiaries, Air New Zealand and Sky City, the Auckland casino, plus a drop in earnings from US associate Graham Field.

Forestry stocks have been under pressure. Carter Holt Harvey, controlled by International Paper of New York, has moved down to a 1998 low of NZ$2.43.

**Terry Hall**

## Dow rallies strongly to scale 8,900

**AMERICAS**

US shares regained their footing after Monday's setback, with the Dow Jones Industrial Average climbing back above the 8,900 level, *writes John Labate in New York.*

"The inflow of money and the end of the quarter is overwhelming any negative forces, and should for at least the next week," said Bill Meehan, chief market analyst at Cantor Fitzgerald in Connecticut. "The market doesn't seem to care about earnings estimates being ratcheted down."

*By* early afternoon the Dow had nearly erased nearly all Monday's loss, rising 88.69 or 1.01 per cent to 8,904.94. The other major indices also rallied. The Standard & Poor's 500 index was 9.99 higher at 1,105.54, while the Nasdaq composite *increased by 18.80 to 1,811.31.*

Some oil-sensitive shares, including airline companies, recovered as the price of a barrel of oil moved lower in morning trade. Shares of UAL rose $2 3/16 to $90⅞.

Among Dow components, AT&T rose $1⅞ to $67 13/16 after announcing a *new electronic* commerce service. Disney was also higher on the day, up $4 3/16 to $106 13/16. But Chevron was down $2 to $85 1/16.

Banking shares rose on renewed speculation that Chase Manhattan could be involved in a merger. The bank's president said Chase plans to expand its equity operations. The comments helped send the stock up $3⅞ to $135 13/16.

Other major bank shares were higher as well, sending the Philadelphia stock exchange's banking index up 14.54 or 1.72 per cent to 861.51.

In the computer sector, Microsoft gained $11/16 to $84 13/16 while semiconductor chip maker Texas Instruments climbed $1⅞ to $54⅞. Shares of Cabletron, the networking products maker, rose $9/16 to $15¼ after announcing it would cut 180 manufacturing jobs. Small company shares gained ground, sending the Russell 2000 index up 2.26 to 476.22.

**TORONTO** overcame a slow morning for the heavyweight banking sector and tracked higher in the wake of the strong start on Wall Street. The 300 composite index was up 27.06 at 7,537.30 noon.

News of the merger talks between AT&T Canada and Telus, Canada's third biggest telephone company, made for an active morning among *telecoms shares. Among* equipment suppliers, Northern Telecom gained C$1.05 to C$88.80 and BCE added 85 cents to C$56.00.

Golds pushed higher on the back of a stronger bullion price. Barrick improved 15 cents to C$28.75 and Placer Dome 10 cents to C$18.30. A single block trade was said to lie behind a C$2.80 rise to C$72.10 at Newcourt Credit.

Banks were among the more obvious odd men out with Royal Bank of Canada slipping 25 cents to C$85.45 and Bank of Montreal off 35 cents at C$78.25. Bank of Nova Scotia lost 10 cents to C$37.

Oils ran into profit-taking after Monday's rally. Gulf Canada fell back 20 cents to C$8.25.

## Mexico City picks up

**MEXICO CITY** lost ground at the opening but picked up in mid-morning trading. By midsession, the IPC index was 63.17 or 1.2 per cent higher at 5,105.25.

Bank shares were in demand on news of plans to widen the share ownership of financial companies. Bancomer A shares gained 50 centavos or 15 per cent to 3.85 pesos. Banorte A shares rose 1,50 pesos to 11.50 pesos.

**SAO PAULO** moved modestly higher in early trading, helped by the upbeat start on Wall Street and some solid demand for Telebrás following the telecom giant's results late on Monday.

The figures, broadly in line with broker estimates, were still positive enough to tempt an initial round of buy orders. The shares rose 0.5 per cent to R$53.20.

Petrobrás marked time as oil price concern reasserted itself after Monday's rally. Eletrobrás shed 1 per cent to R$60.40. At midsession, the Bovespa index was up 26 at 12,064.

***SANTIAGO*** moved lower in light morning trading. The IPSA index was off 0.30 at 103.96 at midsession.

## Milan loses taste for bonds

**EUROPE**

Shares in **MILAN** forged ahead 3 per cent to a record as investors continued to switch from bonds to shares in the face of declining long-term interest rates.

Figures from the Italian fund managers' association revealed that net cash inflows over the past two months were at record highs of more than L30,000bn. Managers expect continued switching into equities.

The Mibtel index gained 703 to 23,722. Italian investors have traditionally favoured bonds, but have woken up to the stock market, said one analyst.

Mediolanum, the insurer, rose L3,190 or 6.3 per cent to L53,702 ahead of its post-trading results announcement. Mediaset, the broadcaster, which fell steeply following the collapse of negotiations between its largest shareholder Silvio Berlusconi and Rupert Murdoch's News Corp over the sale of a controlling stake, recovered L281 or 2.4 per cent to L11,813.

**PARIS** took the bit between its teeth and volume surged to 23.3m shares as the CAC 40 index rose 58.41 to a record 3,738.54.

Top-of-the-range results plus a 30 per cent improvement in dividend sent Schneider FFr23.50 ahead to FFr437.5. The news that the group is in talks with Siemens of Germany on power technology co-operation also bolstered sentiment.

Rival electrical group Legrand added FFr76 to FFr1,660 amid renewed speculation that Schneider's positive results might provide a framework for a link between the two companies.

BNP gained FFr11.50 to FFr 449.4 and Paribas FFr21 to FFr613 following a fresh outbreak of rumours suggesting the two were in merger talks. France Telecom rose FFr10.30 to FFr315.5 following Monday's steep sell-off.

Accor jumped FFr80 or 5.8 per cent to FFr1,450 after Société Générale lifted its target price for the hotels leader by 10 per cent to FFr1,600.

Investors appeared to have second thoughts about oils with Elf Aquitaine reversing Monday's *strong gains.* Elf shed FFr16 to FFr785, but Total continued to edge higher, adding FFr1 at FFr738.

Investor disappointment with the 1997 figures sent Hermes lower. The shares fell FFr14 to FFr498 in spite *of an earnings upgrade by* Goldman Sachs.

**FRANKFURT** also probed record highs, helped by benign inflation news from four federal states. At the close of electronic trading, the Xetra Dax was 50.22 higher at 5,064.35 and pressing right up against its best levels of the session.

Linde was a strong feature with the engineering group jumping DM79 to DM1,354 on news of a strong sales start to the current year. The company holds an analysts meeting today. Siemens drove up DM4.55 to DM125.90.

Chemicals were in demand. Bayer added DM1.76 to DM84.08 and Henkel DM3.45 to DM132.70. Volkswagen fell DM16 to DM1,432 in spite of upbeat first-quarter figures from its Audi offshoot.

**MADRID** rallied, led by blue chips, and closed at a record. The general index gained 12.06 or 1.4 per cent to 873.68. A lower-than-expected budget deficit for January and February helped sentiment.

Gains in Telefónica, which closed up Pta160 to Pta6,750, supported the index while construction company Actividades de Construccion y Servicios rose Pta175 or 3.7 per cent to Pta4,980 following an announcement by the Madrid stock exchange that the share would replace Banesto in the Ibex-35 index.

*ZURICH* gained on derivatives-related buying and lower short-term interest rates, and posted its second straight record close. The SMI index rose 68.4 or 0.9 per cent to 7,407.4.

Credit Suisse Group, which had attracted buying over the past few days on speculation of merger talks, lost SFr1 to SFr298 on profit-taking. UBS gained SFr56 to SFr2,375, as did its merger partner SBC, which added SFr11 to SFr511. Roche fell SFr95 to SFr16,475 on position adjustment ahead of its post-trading results announcement.

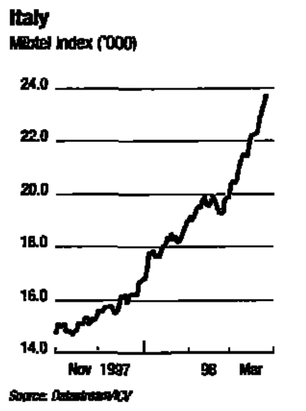
**AMSTERDAM** moved back into record territory with the AEX index adding 7.23 to 1,130.13, helped by a run for the high-tech sector.

Philips jumped Fl 5.40 or 3.7 per cent to Fl 153.50 and ASM Lithograpy gained Fl 6.60 to Fl 194.60. Baan added *Fl 2.30* to *Fl 99.70*, rebounding from Monday's profit-taking. Investors having second thoughts on oil prices left Royal Dutch off Fl 1.10 at Fl 120.40.

Hagemeyer continued higher after last week's successful placing of 40 per cent of the trading house. The shares rose Fl 3.80 to Fl 102.50 – a three-day advance of almost 11 per cent.

**OSLO**, which gained ground on the rise in oil prices earlier this week, edged down as the rally in oil shares stalled. The Total index fell 0.1 to 1,366.32. Investors focused on financials. Union Bank of Norway fell NKr2 to NKr246.

Written and edited by Jeffrey Brown, Emiko Terazono, Peter Hall and Paul Gregan




Italy
Mibtel index ('000)

**FTSE Actuaries Share Indices** — European series

March 24

| National & Regional Markets | Euro Index | Day's % | change points | Yield gross % | xd adj ytd | Total retn (Euro) |
|---|---|---|---|---|---|---|
| FTSE Eurotop 300 | 1208.78 | +0.93 | +11.12 | 1.92 | 4.44 | 1222.93 |
| FTSE Eurotop 100 | 2789.52 | +0.83 | +23.02 | - | - | - |
| **FTSE Eurotop 300 Regions** | | | | | | |
| 300 UK | 1194.54 | -0.08 | -0.96 | 2.80 | 10.42 | 1225.80 |
| 300 Ex-UK | 1217.28 | +1.50 | +17.99 | 1.44 | 1.04 | 1221.82 |
| 300 Eurobloc | 1198.14 | +1.45 | +17.10 | 1.62 | 1.50 | 1202.32 |
| 300 Ex-Eurobloc | 1220.72 | +0.57 | +6.87 | 2.13 | 6.57 | 1240.62 |
| **FTSE Eurotop 300 Economic Groups** | | | | | | |
| Resources | 1048.65 | -0.99 | -10.48 | 2.61 | 3.62 | 1057.39 |
| General Industries | 1135.68 | +1.13 | +12.63 | 1.77 | 3.07 | 1141.75 |
| Consumer Goods | 1166.65 | +0.52 | +5.99 | 1.56 | 4.27 | 1183.63 |
| Services | 1160.26 | +1.13 | +13.02 | 1.88 | 4.07 | 1173.66 |
| Utilities | 1328.77 | +0.76 | +10.33 | 3.31 | 1.84 | 1348.32 |
| Financials | 1338.84 | +1.55 | +20.44 | 1.56 | 5.63 | 1353.89 |

More information on http://www.ftse.com. 'FTSE' and 'Footsie' are registered trade marks of the London Stock Exchange and The Financial Times. 'Eurotop' is a registered trade mark of the Amsterdam Stock Exchange. FTSE Eurotop indices are compiled by FTSE International. © FTSE International Limited 1998. All rights reserved.

**SOUTH AFRICA**

Golds continued to power ahead in Johannesburg, responding to the bullion price rally with an index gain of 6.4 per cent. The all-share index ended 64.1 higher at 7,230.2.

Financials rose 77.0 to 13,283.4 and industrials added 22.3 to 8,537.5. But golds stole the show.

Driefontein Consolidated jumped R2.20 or 7.8 per cent to R30.50 and Vaal Reefs R13 or 7.2 per cent to R194. The golds index put on 44.8 to 743.2.

## Nikkei drops as tax hopes fade

**ASIA PACIFIC**

**TOKYO** fell sharply after senior figures in the ruling Liberal Democratic party ruled out income tax cuts in a forthcoming economic package, *writes Gillian Tett in Tokyo.*

The Nikkei 225 Average came off 1.6 per cent to end at 16,606.30 after moving between 16,550.75 and 16,768.53. The broader-based Topix index, which covers all first-section stocks, fell 11.48 to 1,239. In Osaka, the OSE index lost 175.68 at 16,596.72.

The key reason for the setback was disappointment over the LDP's tax-cut plans. The LDP has indicated that it plans to unveil a stimulus package of between Y10,000bn and Y15,000bn to boost the ailing economy.

Many market traders had assumed this would include income tax changes, considered necessary to offset recent consumer gloom. Japan's trading partners have been pressing for tax cuts.

However, the LDP indicated on Monday that the package would not contain tax cuts. And although some government officials have called for postal savings funds to be pumped into the stock market to boost prices, this has had a limited impact on the markets.

Total volume on the TSE was 476m, up from 361m on Monday. Losers outpaced gainers by 778 to 353.

The main declining sectors included shipbuilding, brokerages and construction, while miscellaneous manufacturing and railway and bus transport were gainers.

The stocks of major banks were particularly heavily traded, partly due to profit-taking ahead of the close of the March year-end. Sakura Bank fell Y8 to Y495, Fuji Bank fell Y49 to Y871 and Sumitomo fell Y60 to Y1,310.

**JAKARTA** lost ground as banks raised deposit rates in response to a rate rise by the central bank. With one-month rates raised from 22 per cent to 45 per cent, investors were said to have rushed to unload equities. The composite index lost 14.66 or 2.8 per cent to 501.66.

The rise in interest rates helped the rupiah but failed to lift sentiment. Property, bank and finance stocks lost ground, with Bank Internasional Indonesia down Rp25 to Rp575 while Duta Anggada, a property concern, declined Rp50 to Rp300.

**HONG KONG** gained after softening money market rates and a land auction, which attracted higher-than-expected bids, sparked late buying. Properties were in demand and the sector jumped 1.2 per cent. Cheung Kong rose HK$1.25 to HK$58 and Sung Hung Kai 50 cents to HK$54. Index heavyweight HSBC stayed weak, dipping HK$2 to HK$232.

The Hang Seng index closed up 51.10 at 11,645.43 after a low of 11,516.76.

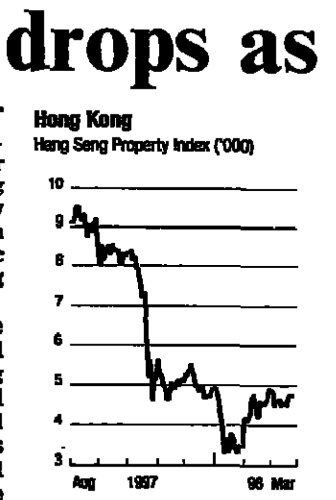
**BANGKOK** moved lower after further foreign exchange gains for the baht led to worries about export competitiveness. The SET index ended 13.40 or 2.7 per cent lower at 490.27.

Export-led groups Songkia Canning and Delta Electronics gave up Bt5 to Bt148 and Bt14 to Bt538 as the baht strengthened to 38.75 to the dollar. Bangkok Bank was the most active share, falling Bt2 to Bt88.50.

**KUALA LUMPUR** was disappointed at the lack of changes regarding foreign ownership of Malaysian companies. Expectations that the ceiling would be raised turned to nothing as the government announced that the restriction on foreign ownership of banks, telecoms, insurance and stockbroking companies would remain at present levels.

The composite index lost 3.9 to 731.89 with financials leading the decline. The financial index fell 1.6 per cent.

Maybank, the country's largest bank, with a weighting of over 6 per cent of the index, lost 20 cents to M$14.20 while Sime Darby lost 14 cents to M$4.30.

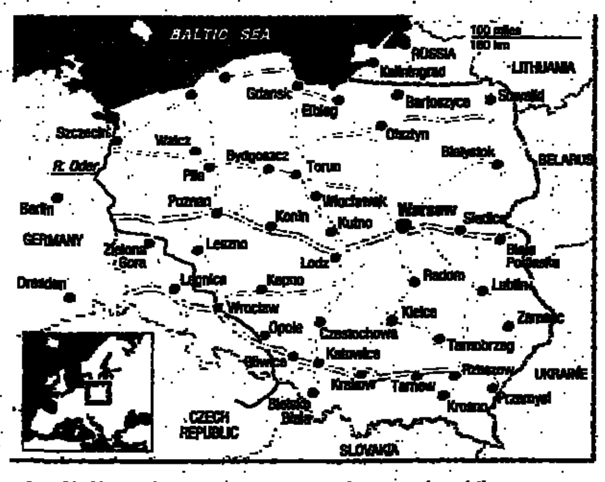



Hong Kong
Hang Seng Property Index ('000)

# Poland

Able to look east and west with equanimity for the first time in 200 years, Poland's gaze, report **Kevin Done** and **Christopher Bobinski**, is fixed firmly forward

## Free to shape the future




- Area: 311,904 sq km
- Population: 38.6 million (Dec 1996 estimate)
- Language: Polish
- Currency: Zloty
- Exchange rate: 1997 av $1 = Zloty 3.2793; March 19 1998 $1 = Zloty 3.4495
- Main towns and population (end December 1995): Warsaw (capital) 1,635,000; Lodz 823,000; Poznan 581,000; Krakow 745,000; Gdansk 463,000; Wroclaw 642,000

### Constitution

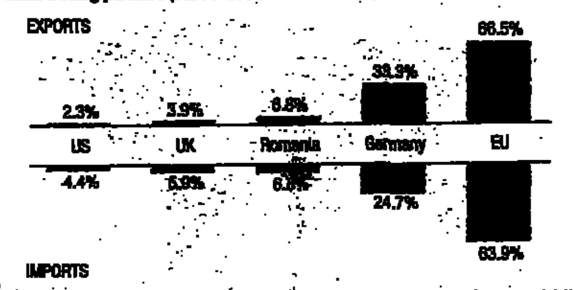
- Official name: Republic of Poland
- Form of state: Parliamentary republic
- National legislature: Bicameral: Sejm (parliament) of 460 seats; Senate of 100 members
- Electoral system: Universal direct suffrage over age 18
- National elections: November 1995 (presidential) and September 1997 (parliamentary); next elections due by November 2000 (presidential) and September 2001 (parliamentary)
- Head of state: President, elected by universal suffrage; currently Aleksander Kwasniewski
- National government: Council of Ministers headed by prime minister, responsible to parliament. A Solidarity Electoral Action-Freedom Union (AWS-UW) coalition came to power on October 20 1997

### Economic summary

| | 1996 | 1997 |
|---|---|---|
| Total GDP ($billion) | 134.4 | 131.0 |
| Real GDP growth (annual percentage change) | 6.1 | 6.7 |
| Inflation (annual percentage change in CPI) | 19.9 | 15.0 |
| Average earnings (annual percentage change) | 26.6 | 21.7 |
| Industrial production (annual % change) | 9.1 | 11.2 |
| Unemployment rate (percentage of workforce) | 14.3 | 11.5 |
| Money supply, M2 (annual percentage change) | 31.9 | 30.1 |
| Foreign exchange reserves ($billion) | 18.0 | 20.7 |
| Government expenditure (percentage of GDP) | 30.0 | 29.2 |
| Government budget deficit (percentage of GDP) | -2.5 | -1.3 |
| Current account balance ($billion) | -1.3 | -3.9[1] |
| Merchandise exports ($billion) | 24.4 | 24.1[1] |
| Merchandise imports ($billion) | 37.2 | 38.2[1] |
| Trade balance ($billion) | -12.8 | -14.1[1] |
| Discount rate (%)[2] | 22.0 | 24.5 |
| Three-month interest rate (%)[2] | 19.9 | 24.4 |
| Retail sales (annual percentage change) | -6.2 | -0.1 |

[1] January-November [2] End period

Main trading partners (share of total trade to world 1996)

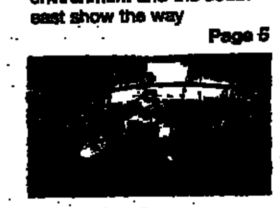



Sources: Datastream/ICV; OECD; Polish Central Statistical Office

### IN THIS SURVEY









As Poland embarks, next week, on the arduous task of negotiating its entry into the European Union; the country stands at the threshold of a new era. For the first time since the end of the 18th century, Poland is free of the fear of falling victim to the ambitions of either of its powerful neighbours to east and west, Russia and Germany. Poland is approaching the next century with the prospect that membership of the EU and of Nato will allow it to redefine its geopolitical role.

The end of the cold war and the Russian withdrawal from central Europe has left Poland without conflicts on any of its borders.

As a result, the country is able to concentrate on tackling a daunting agenda of political and social reform coupled with promoting the economic development necessary to allow it to narrow the gap of wealth and prosperity that separates it from its western neighbours.

Membership of Nato beckons. Along with the Czech Republic and Hungary, Poland is expected to join the alliance in April next year on the 50th anniversary of the signing of the Washington Treaty, once its accession has been ratified by the 16 existing members.

By contrast, negotiations on joining the EU are likely to be much more tortuous and complex, resting as much on the EU's ability to reform its own institutions, as on Poland's capacity to adapt to the demands from Brussels.

Membership of the EU appears unlikely before 2002/2003 but the process of negotiation, and the scale of change that will be required, pose the greatest challenge to date as Poland continues the transition from a command to a market economy, on which the country embarked with the fall of communism in 1989.

Many of the economic portents are promising. Poland is achieving one of the highest growth rates, at around 6 per cent a year, of any of the former communist countries of central and east Europe.

Inflation is falling, although the government's aim of bringing the rate of price increases to less than 10 per cent by the end of 1998, from 13.2 per cent year-on-year last December, appears optimistic.

Poland made significant progress in cooling its overheated economy last year, albeit at the cost of exceptionally high real interest rates. The tight fiscal and monetary policies still being pursued by the centre-right government elected last autumn suggest that the lessons of last year's financial and economic crises in the neighbouring Czech Republic and in Asia have been heeded in Warsaw.

The concerns expressed in the second half of last year about the deterioration in the current account of the balance of payments have receded.

And the confidence of the financial markets has been reinforced by two key appointments: the return to the finance ministry as deputy prime minister, of Leszek Balcerowicz, the architect of Poland's free market reforms at the beginning of the 1990s; and the recent confirmation of a second term for Hanna Gronkiewicz-Waltz as governor of the National Bank of Poland.

The interest rate regime has been set, since early this year, by a newly-formed monetary policy council chaired by the central bank governor. Ms Gronkiewicz-Waltz has traded some of her individual influence for greater independence for the bank with parliament giving up its previous power to approve the guidelines of monetary policy.

In its first moves, the council reduced the monthly crawling peg devaluation rate and widened the trading band for the Polish currency. The aim was to increase foreign exchange risk for speculative foreign investors in the face of a rapidly rising foreign currency inflow.

The moves, combined with a small increase in short-term interest rates, suggest that the twin priorities for the council are a reduction in the inflation rate and a strong zloty.

The Warsaw stock market has responded strongly to the promising outlook for the economy and to expectations of improving corporate earnings. With foreign investors in the vanguard, share prices have risen by more than 25 per cent in the past two months to the highest levels for four years.

This mood of optimism in financial circles together with the somewhat surprising sense of political stability that has developed since the autumn election – which left a former communist president, Aleksander Kwasniewski, co-habiting with a centre-right coalition government led by the Solidarity Election Action (AWS) alliance and the pro-business Freedom Union (UW) – can tend to mask the magnitude of the reform task facing Poland and the painful restructuring that will result from preparations for entry into the EU.

Even before the official negotiations begin in Brussels next week, deep misgivings are being expressed in diplomatic and some opposition circles about Poland's institutional preparedness for the talks.

Fears centre on rivalries between, and within, institutions such as the European Integration Committee (KIE) and the Foreign Ministry, which could weaken Poland's position in the talks.

The KIE, for example, is headed by Ryszard Czarnecki, an ambitious young cabinet minister and former leader of the nationalist Christian National Union, a party not noted for its strong support for EU membership.

But, in spite of the fears, the EU is yet to become a divisive political issue. No significant eurosceptic force has emerged and all polls suggest that the great majority of Poles strongly support EU entry.

The still influential Catholic bishops back EU membership, as do young people, managers, the unemployed and employees of the state run social services. The farming population has the biggest reservations.

Nonetheless, this support could weaken as the realisation dawns that the effort of adapting the country's legal and administrative system to take on board the formidable body of EU laws and regulations, the so-called *acquis communautaire*, will require profound changes in Poland's institutional structures.

At the same time, the competitive challenge posed by the EU to Poland's industry, agriculture, banking and other sectors, coupled with the need to meet EU environmental standards, will mean that painful restructuring measures will have to be pursued despite the social costs that these will entail.

Mr Balcerowicz warns that in coal mining alone between 60,000 and 80,000 jobs will have to be cut from the present workforce of 240,000 with the closure of small, uneconomic pits. "This is probably the most difficult reform in the economy but it is indispensable," he says.

The EU also wants to see Poland's steel capacity reduced to commercially sustainable levels and its markets fully opened to west European competition.

EU officials fear that, if the steel industry's future cannot be resolved amicably, it could cast a shadow over the even more difficult negotiations to come in coal and agriculture.

Alongside the restructuring of problem sectors of the economy the new government, headed by prime minister Jerzy Buzek, is committed to accelerating the pace of privatisation. "We want to bring the private sector in the next three to four years to a level that is considered normal in free market economies," says Mr Buzek.

Heading the privatisation agenda is the sale of a first tranche of shares, later this year, in TPSA, the country's sprawling telecommunications utility. This move alone could almost double the market capitalisation of the Warsaw bourse and it will be followed by the sale of a stake in the Pekao bank group, the country's largest commercial bank in terms of assets, the privatisation of LOT, the national airline, and other sell-offs in banking, energy and pharmaceuticals.

Higher privatisation receipts are a vital ingredient in bolstering the government's finances, as it seeks to undertake far-reaching social and structural reforms in local government, pensions, health and education.

The inevitable strains that will result from the pursuit of these reforms, in parallel with the adoption of the tight medium-term financial strategy envisaged by Mr Balcerowicz, whose target is to balance the budget by 2001 or 2002, will sorely test the cohesion of Poland's new coalition government.

**ECONOMY** • by Stefan Wagstyl

# Reform is the road forward

## Liberalisation has been a powerful engine for the economy and it must continue

In Empik, a new multi-media store in central Warsaw, customers are leafing through magazines on everything from computer software to cookery. Fashion fights for space with furniture and foreign languages. Business is represented with publications on finance, marketing and careers in public relations. Outside, street traders from the countryside are standing in the winter rain selling fruit, cheese and bedroom slippers. Everyone wants to participate in Poland's economic advance.

But not everyone is equally well placed to do so. For the government the challenge is to maintain the rapid pace of growth of the post-communist era whilst trying to ensure that the benefits reach beyond the fast-growing big centres – Warsaw, Gdansk, Poznan and Katowice – to smaller cities, towns and villages.

Leszek Balcerowicz, finance minister, deputy prime minister and the author of the reforms which transformed Poland in the early 1990s, is convinced that only a second bout of market-oriented restructuring, deregulation and privatisation can keep the country growing at the speed it needs to create jobs.

But Mr Balcerowicz's party, the liberal Freedom Union (UW), is a minority partner in the ruling right-of-centre coalition. Some of his allies in the dominant AWS, which was formed by the Solidarity trade union movement, harbour doubts. They remember only too well how voters threw them out of power in 1993 because of the economic pain inflicted by Mr Balcerowicz's first round of shock treatment, putting former communists back into office.

Since returning to power last September, the ruling alliance has avoided precipitate action. It is unclear how it will implement plans which could cost thousands of jobs in inefficient state-run enterprises.

Fortunately, the economy Mr Balcerowicz inherited is in good shape, with GDP growth last year of 6.9 per cent, the highest in post-communist central Europe. Unemployment fell to 10.5 per cent by the year-end, below the EU average of 11.3 per cent, and inflation was down to 13 per cent.

The tremors which shook emerging markets following the turmoil in east Asia made foreign investors think twice about Poland but they have returned with a vengeance, with some $2bn flowing into the country in the first two months of 1998, compared with $6.7bn in whole of last year.

For Alain Pilloux, the official responsible for Poland at the European Bank for Reconstruction and Development: "Poland is performing well in comparison with other transition economies."

The short-term danger is possible over-heating. With real incomes rising, especially in big cities, Polish consumers are spending as never before, especially on house building and home improvements.

And companies are investing heavily in equipment to modernise and prepare for competition following the country's expected entry into the EU early next century. As a result, imports are growing faster than exports, creating a current account deficit last year of 3.5 per cent of GDP which the government fears could hit 5 per cent this year.

Mr Balcerowicz says he has addressed the problem with a restrictive 1998 budget, including tax increases. Hanna Gronkiewicz-Waltz, governor of the National Bank of Poland, the central bank, says interest rate increases made early last year are helping to slow the economy. The targets for 1998 are GDP growth of 5.6 per cent and year-end inflation of 9.5 per cent. Nevertheless, Mr Pilloux says: "Poland is a bit vulnerable to an investment and consumption boom."

The real answer lies not in short-term fine-tuning but in long-term structural change. Mr Balcerowicz says that without more fundamental reform, Poland cannot meet his ambitious medium-term target of average growth of 6.5 per cent annually for 1997-2001, combined with falling inflation, rising employment and cuts in government borrowing.

Accelerated privatisation is the top priority. While the state's share of output has fallen in the 1990s from more than 60 per cent to about 30 per cent, the target of 15 per cent is still some way off.

In political terms, much of the easiest work has been done in selling smaller enterprises and profitable units such as KGHM, the copper group. The remaining list includes about 100 big enterprises, including many in public services and in heavy industry. Among them are high-profile units, such as TPSA, the telecoms monopoly, Pekao, the biggest bank, and LOT, the national airline. All are being prepared for privatisation but all remain politically sensitive, with some managers and staff preferring state ownership to the anxiety of possibly being taken over by a foreign investor.

The privatisation of heavy industry is even more difficult because these industries require big job cuts. Perhaps 60,000-80,000 of 250,000 coal miners may have to go and about half the remaining 83,000 steel workers. In steel, Poland is under pressure from the EU to publish a restructuring plan by mid-year or risk escalating a serious trade dispute. In coal, the timetable is less pressing but Mr Balcerowicz says the industry's losses – 3bn zloty last year – must be eliminated in two years.

Mr Balcerowicz wants to increase privatisation proceeds from 6bn zloty in 1997 to 6.7bn zloty this year and 10bn zloty a year from 1999 to help finance other ambitious reforms, notably of pensions and benefits, which absorb 42 per cent of government spending.

His plan is to introduce compulsory private pensions to reduce the burden on the state whilst protecting existing pensioners and those close to retirement who will remain in the state system. The plan will cost 6bn zlotys a year over a decade.

The government also wants to make the health service more efficient by switching resources from hospital beds to other facilities and from big cities to smaller towns. Poland spends more on health care than comparable countries and deserves better results, says Mr Balcerowicz.

And the minister insists that health care reform – like everything else the government does to improve social services – must take place within the framework of budget deficit reduction. "There are sometimes attempts to present plans without attention to costs," he says in a thinly-veiled comment on some his fellow ministers.

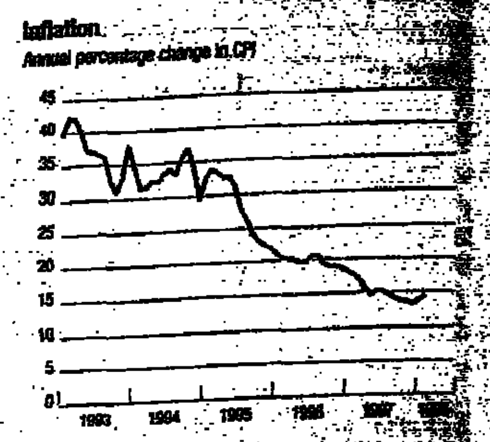
Jerzy Buzek, the AWS prime minister, supports Mr Balcerowicz's commitment to more market-oriented reform. So does Aleksander Kwasniewski, the opposition SLD president. But there is still considerable scope for argument.

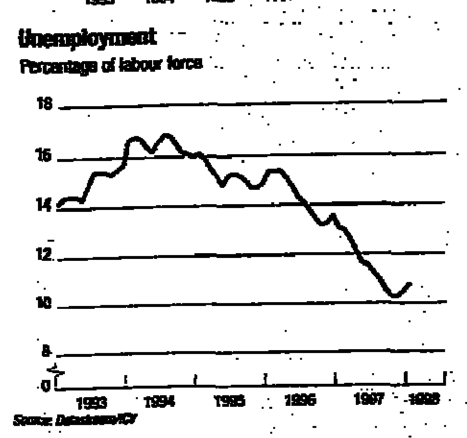
In particular, some AWS politicians linked to Solidarity do not want to take risks with their supporters' jobs in state enterprises.

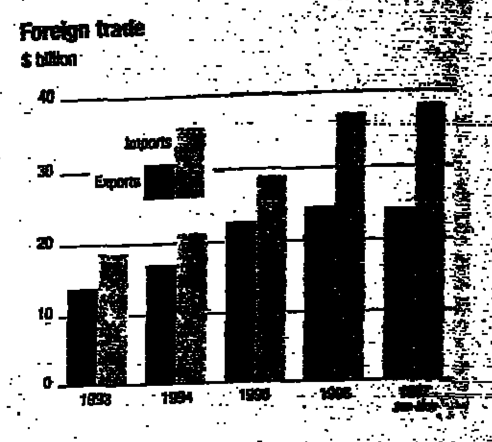
Emil Wasacz, the treasury minister responsible for privatisation, recently installed a new director at the Ursus tractor works, a Solidarity stronghold and a by-word for industrial inefficiency, at a time when the unit was negotiating with Agco of Canada over an investment which would have required job cuts. The new director promptly declared his opposition to foreign investment and Agco withdrew.

Fortunately, many other foreign investors have pressed ahead, notably in the motor industry, where Fiat of Italy and Daewoo of South Korea head the list.

Like many Polish companies they sense the engine of growth powering the economy but without more change the village people standing outside the new stores in Warsaw will never be able to afford to go inside.


Source: Datastream/ICV

**POLITICS** • by Christopher Bobinski

# Frail consensus won day to day

## The government, and its programme, rests on a constantly shifting coalition

Polish politics continues to be defined by domestic issues but the start of European Union membership talks means that, increasingly, the political agenda will be set by demands from Brussels for changes in the country's economic, legal and institutional framework.

For the moment, the challenges raised by EU membership have a low priority. Indeed, the issue scarcely figured in last autumn's parliamentary elections which brought the Solidarity Electoral Action (AWS) trade union-led alliance of right-wing parties, including as a junior coalition partner the pro business Freedom Union (UW) led by Leszek Balcerowicz, the pioneer of Poland's free market reforms, into government.

Still a consensus about the benefits of EU membership continues to reign among voters and politicians. The results of a recent poll, commissioned by the Institute of Public Affairs, a non partisan think-tank, showed that 64 per cent of Poles would vote in a referendum for EU membership while a mere 9 per cent would vote against.

The AWS is led by Marian Krzaklewski, a 48-year-old computer sciences graduate who succeeded Lech Walesa, the legendary Solidarity leader, at the head of the organisation. The movement fought the autumn election, above all, to beat the former communists in the Left Democratic Alliance (SLD) and its allies in the Polish Peasants' Party (PSL) who had been in office from 1993.

After last year's victory, Mr Krzaklewski decided to hand the post of prime minister to Jerzy Buzek, a mild mannered chemical engineering professor. Mr Krzaklewski is planning to complete the anti-communist sweep and beat Aleksander Kwasniewski, the former communist president, for the presidency at the next election in 2000.

The anti-communist fervour displayed by the AWS before the elections has begun to ebb as the movement's entire attention turns to a punishing struggle to implement an ambitious programme of reform to decentralise local government and change Poland's welfare system.

The first five months of the new government have shown that pre-election fears that the AWS would soon break up into its many small and fractious groups are unfounded.

The governing coalition with the centrist UW appears to be well established and the present alliance is expected to survive until the next parliamentary elections in 2001. After all, the right wingers in the AWS, having spent the last four years outside parliament, have been taught by experience that splits lead to the political wilderness.

And the spoils of power are significant enough to make staying in government imperative for the various constituent parts of the AWS, all of which want to build their organisations for future elections.

This does not mean that the AWS is conflict free. On the contrary, management of the 200 strong parliamentary caucus comes down to an almost daily search for consensus between its component groups.

These, broadly speaking, divide into a large block with a Solidarity trade union background which is slowly being transformed into a political party and established parties, of which the right wing Christian

Continued on Page 3

Solidarity: Marian Krzakiewski and Jerzy Buzek *Reuters*

**SOCIAL POLICY** • by Christopher Bobinski

# Nanny is pensioned off

## Critical of its predecessors, the government must deliver on its welfare agenda

A radical reorganisation of Poland's social welfare systems is a priority for the Solidarity-based government as its performance in a field affecting the entire population will be crucial to winning the next parliamentary elections in 2001.

But the commitment to change goes deeper in the Solidarity movement which has, for the eight years since the fall of communism, repeatedly called for reforms of the welfare system. Indeed, its image has been built on criticising previous governments for their failure to make progress in this field.

Now Teresa Kaminska, a Solidarity member since 1980 who formerly led the union's health service branch, has been given responsibility for co-ordinating the reforms. Ms Kaminska oversees a team covering areas ranging from pensions to health care and other social services. And, like many of her union colleagues, now in government, she exudes an enthusiasm for her cause born of years of waiting for the chance to cut waste and target the genuinely needy.

The aim, says Ms Kaminska, is to widen the services available to recipients of the welfare system by opening the field up to the private sector. The government intends to control costs while private savings, managed by insurance companies, complement the redistribution of welfare funds by the state.

Ms Kaminska's commitment to her cause survived a recent series of gruelling late night meetings in which the government persuaded its supporters in the Solidarity Electoral Action (AWS) parliamentary caucus to back measures to decentralise local government.

These reforms, which bring in a new tier of local government, the powiat, and cut the number of provinces from 49 to 12, are crucial to the social reforms because many social service functions will be managed at the powiat level.

But the planned local government reorganisation has already provoked opposition from provinces which will lose their gubernatorial status. Indeed, the criticism has cut across party lines with even the bishops in some towns, such as Czestochowa, the national shrine which will lose as a result of the reform, pitching in.

And the row over the local government plans provides a mild foretaste of the conflict which the pension reforms will provoke.

This month, Ewa Lewicka, another Solidarity activist who is responsible for the pension reforms, expects to send draft legislation to parliament for approval. It will see a fifth of the present pension contribution paid into private pension funds.

Currently, employers pay the whole contribution, amounting to 45 per cent of their wage bill, into the present pay as you go system. The government is arguing the reform is essential as the ratio of Poles of working age to pensioners stood at 2.17 in 1995 but is set to fall to 1.8 by 2015 when the cost of the present system will no longer be sustainable.

Under the new system, the labour force can expect to be paid a minimum pension funded through a continuation of the present pay as you go system topped up by the compulsory private pension funds. In addition, people will be able to save through voluntary pension schemes.

The new system will be compulsory for the under thirties and optional for those between 30 and 50. The over fifties will stay within the present system.

The cost to the budget of having a fifth of the present contribution paid into the private pension funds is to be compensated from revenues raised by disposals of state assets.

Ms Lewicka estimates that the first year will see approximately 3.5bn zlotys flowing into the new funds, rising to 7bn zlotys in the second year. This will largely be invested in domestic capital markets.

The plans will need some hard negotiating with the 20 per cent of the workforce, including steelworkers and coal miners, who enjoy privileged pensions granted under the communist regime. These will be removed under the new scheme where pensions in the pay as you go system will be linked to individual contributions. Also, the present generous system of disability benefits will have to be tightened to cover the initial costs of the reform.

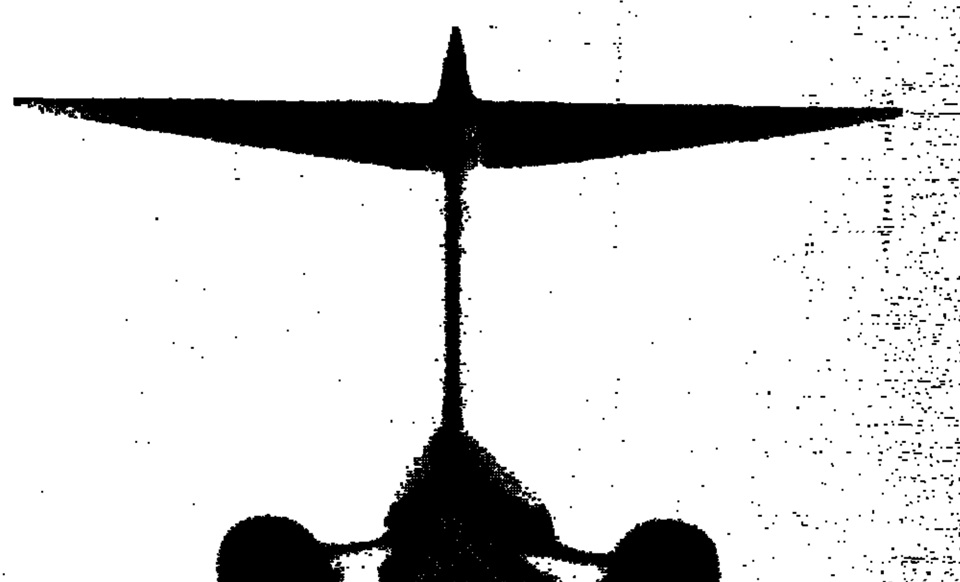
More controversy, this time inside the governing coalition, lies ahead in the medical field. Here Ms Kaminska is putting the finishing touches to plans to establish a system of health funds which would pay individual patients' health bills. They are to be financed through a transfer of half of each Pole's income tax contribution. The funds would sign agreements with public and private hospitals and clinics which would then be licenced as approved providers of health care.

However, the plan is opposed by the Freedom Union (UW), the Solidarity Electoral Action's (AWS) junior partner in government. The UW says money for medical care should be channeled through local government. Also, true to its pro business affiliation, the UW wants greater scope for private health insurance whose participants would have income tax breaks.

This, Ms Kaminska argues, could prove too great a drain on the publicly financed system which would deteriorate with dependence on the taxes of the worse off.

The government's social care proposals are less controversial. Here those in need would be presented with vouchers which they could then "spend" with state owned or private providers of services. This would mean a competitive market in the sector and give the needy a choice.





**FOREIGN POLICY** • by Christopher Bobinski

# No more the victim

## Planned alliances with the west and a new outlook to the east reflect a confident nation

The end of the cold war and the Russian withdrawal from central Europe leaves Poland with the happy prospect of entering the next century without conflicts on any of its borders and its citizens' safety secured through membership of Nato and the European Union.

Indeed, for the first time since the end of the 18th century membership of these two western institutions gives Poland the chance to redefine its geopolitical role.

No longer will the country's main concern be to avoid becoming, as so often in the past, a victim of Russia or Germany, its powerful neighbours to the east and west. Rather, Poland is set to become a partner in western alliances where it will have a clear role in helping to ensure stability, as well as democratic and economic reform, in the countries beyond its eastern frontier.

Membership of Nato, along with the Czech Republic and Hungary, is within its grasp. Once the accession of the three central European countries has been ratified by the 16 existing members they can expect to join Nato on the 50th anniversary of the alliance in 1999.

Talks on adaptation of Poland's armed forces are well in train and, according to Robert Mroziewicz, the deputy defence minister responsible for relations with Nato, a planned reorganisation of the military will give the country immediate reaction forces which could take part in Nato missions abroad at short notice.

Indeed, the recent build up of US-led forces against Iraq saw Poland committing a chemical defence unit in a sign that the country is ready to operate in joint operations out of the European area.

The cost to Nato as a whole of adapting Polish facilities, such as airfields, to enable them to serve Nato forces is estimated to run to a mere \$1.5bn. At the same time, Poland is preparing to spend \$8bn on modernising its armed forces over the next 12 to 15 years.

Membership of the European Union is a more complex challenge. Helmut Kohl, the German Chancellor and Poland's main champion, recently repeated that the country should join the EU as soon as possible. He was sitting in the western Polish city of Poznan alongside Jacques Chirac, the French president, who is also ready to repeat that Poland should be in the EU by the year 2000.

More realistic estimates coming from the European Commission put Poland's entry date at 2003 and it is certain that there will be hard talks before membership is a done deal.

Poland has already said that it will be looking for waivers from the EU principles of a free flow of goods, people, services and capital in the field of insurance, transport and sale of farm land to other EU citizens.

Poland will also need long adaptation periods in the implementation of EU environmental norms because of the cost involved.

For its part, the EU looks set to insist that barriers stay in place to the flow of cheaper Polish labour into the 15 member countries. The process of adapting Poland's large farming sector to the subsidised farm regime in the EU will also be fraught with controversies.

During the talks with Nato and the EU, Poland will take care not to give the impression that it is forgetting about the other countries aspiring to membership of the two groupings. Bronislaw Geremek, the foreign minister recently told parliament "our membership of Nato and the European Union is not and will not be a flight to the west nor are we abandoning the region, our near and more distant partners in the east and the north and south east".

In taking this approach the Poles have the full backing of the United States which has been telling other Nato hopefuls, such as the Baltic countries, that the road to the alliance lies in building good relations with Poland, which will become their nearest Nato neighbour.

Poland is also vitally concerned to maintain the status of the Ukraine as an independent democracy. This is also in tune with Nato policy.

This can be done, in the view of the Poles, by keeping close contacts with the countries to the east. Thus Poland accepts demands by the European Union that the security of its eastern frontier should be tightened. But it is desperately anxious not to send any signals to the east that it sees itself as a rampart defending the EU against the rest of eastern Europe.

"I want to underline that Poland as a future member of Nato and the EU should do everything in its power to ensure that its eastern and northern frontiers do not become civilisational, economic or military barriers but should rather be open to co-operation with its neighbours," Mr Geremek has said.

Meanwhile, Poland feels that EU insistence on the introduction of visas for visitors from Russia, Belarus and the Ukraine is bringing an element of isolationism into the region. This would weaken advocates of democratic and free market reforms in the former Soviet states which Poland wants to support.

Meanwhile, even the EU's senior representatives admit that Brussels does not appear to have thought through the implications of its tough line on the frontiers issue.

Poland is vitally concerned to see stability maintained in the region. This also means not permitting historic antagonisms with neighbours, such as the Lithuanians and the Ukrainians, from ever surfacing again. After all, Warsaw knows full well that the extent to which the situation on its frontiers is free of tension helps determine its status inside Nato and the EU.

# Talking heads

Team talk: Buzek, Geremek and Kwasniewski are keen to join existing EU heads of state

Poland's team for the EU membership negotiations is headed by Jan Kulakowski, a distinguished 68-year-old diplomat, who earned the respect of his peers in Brussels when he was there as Polish ambassador to the EU between 1990 and 1996.

On first name terms with Jacques Delors, former head of the European Commission, Mr Kulakowski, a post-war emigré, came to Poland's EU embassy from a career in Europe's christian democrat trade union movement. It was there that he honed his organisational skills as the Secretary General of the World Labour Confederation between 1976 and 1989.

Mr Kulakowski's direct experience of living in his own country is limited to the last few years in Warsaw where he has been working as an adviser to the European Integration Committee (KIE), a government institution charged with overseeing Poland's adaptation process to EU membership.

This lack of a domestic base could prove to be a drawback when the going in the negotiations gets tough and Mr Kulakowski will have to persuade politicians of the need to take difficult decisions and then sell them to a domestic audience. Mr Kulakowski will have to draw on the goodwill he accumulated with Solidarity which he was able to succour both in 1980 when the union was able to operate openly in Poland and later when martial law forced the movement underground.

The first eight months or so of the talks will be devoted to a technical screening process under which Brussels will be checking to see how much of Poland's legislation still needs to be changed to bring it into line with the EU legal system.

Mr Kulakowski can use this period to ensure that relations between rival government institutions, such as the KIE and the Foreign Ministry, do not paralyse or weaken his country's position as the talks continue. Both have a claim to influence the course of the negotiations. Indeed, it may well be that Mr Kulakowski's diplomatic skills will come in as useful in damping down turf wars in Warsaw as in talking to the European Commission and the 15 member countries.

For the moment Mr Kulakowski answers directly to the prime minister Jerzy Buzek. He also readily stresses that he will be co-ordinating policy with Bronislaw Geremek, the Foreign Minister and Ryszard Czarnecki, the head of KIE.

However, the two institutions are traditional rivals when it comes to dealing with Brussels and this could be compounded by nascent political rivalries.

Mr Geremek, a veteran of Solidarity's struggles in the 1980s, is from the Freedom Union (UW), the junior coalition partner which is strongly committed to adapting Poland to the requirements of EU membership. Mr Czarnecki, is a much younger, pragmatic politician and a former leader of the nationalist Christian National Union (ZChN).

His party, which is a member of the Solidarity Electoral Action (AWS), is lukewarm on the cause of a federal Europe and its radical wing is strongly opposed to the notion. The ZChN could also be tempted to switch to an overtly eurosceptic line were doubts about Polish membership in the EU to grow at home.

Christopher Bobinski

# Frail consensus won day to day

Continued from Page 2

National Union (ZChN) has emerged as the strongest.

"Decisions take such a long time," says a leader of the UW which has 60 deputies in the 460-member Sejm, the more important parliamentary chamber. "And, once the AWS does arrive at a decision and come to agree it with us, someone in their camp changes his mind and the whole process starts all over again."

The AWS also has a fundamentalist fringe linked with the Radio Maryja radio station. This broadcasts a combination of traditional Catholicism and nationalism to approximately 4m listeners whose votes were an important factor in AWS's electoral triumph last autumn. The radio station will play a key role in local government elections this autumn.

These fundamentalists are deeply suspicious of the UW and readily charge that the junior coalition partner's influence over government is greater than its representation in parliament warrants.

The fundamentalists are also strongly opposed to the local government reform, currently at the centre of the government's attentions. This brings in the "powiat" as a third tier of government and folds the present 49 provinces (voivodeships) into 12 units. The powiat and these large voivodeships would get a bigger share than hitherto of tax revenues.

AWS critics charge that the reform will weaken the unity of the state. They also look set to ally with the Polish Peasants' Party, whose rump survives in the Sejm with 26 seats, in seeking to try to block the change through a referendum.

This nascent alliance could, in future, turn into a focus of opposition to Polish membership in the European Union, especially if the farm lobby comes to feel it will lose more than it gains by having Poland join.

The former communist SLD, which has 164 deputies in the Sejm, in principle backs the local government reform. But it has also noted that the changes are opposed in those towns or areas whose status is set to decline once they stop being local government centres. So the SLD has decided to deploy delaying tactics as the complex legislation makes its way through the legislature.

Unfortunately for the AWS-UW coalition, the SLD and president Aleksander Kwasniewski hold the key to the successfull passage of the local government and social welfare reforms.

Under the present constitution, the president has the right to veto legislation and the Sejm needs to muster a three fifths majority, or 276 votes, to overrule the decision. At present, the AWS and UW together control 260 deputies leaving the small PSL holding the extra votes needed to overturn presidential vetoes.

However, the majority of the present governing coalition is loathe to the pay the price of winning the PSL's support by bringing it into government, not least because of its stance on the local government reform.

Ironically, this leaves the AWS with the prospect of toning down its anti communist stance and establishing a constructive *modus vivendi* with president Kwasniewski.

Mr Kwasniewski, who will also be running for a second term in 2000 and has born the brunt of much of the AWS's rhetoric, no doubt, relishes the irony. Nevertheless, he has said he is ready to work with the coalition on key reform issues.

**AGRICULTURE** • by Christopher Bobinski

# The seeds of discontent

## A huge, bellicose farming sector may mean conflict with the EU

The future of Poland's food sector promises to become one of the most controversial issues in the forthcoming European Union membership talks.

The negotiators face a struggle to match Polish interests with those of EU farmers straining to adapt to reforms of the Common Agricultural Policy (CAP).

Whether Poland joins the EU or not the country is going to have to modernise its agriculture, in the process cutting a farm workforce which currently makes up 27 per cent of the working population but produces a mere 6 per cent of GDP.

But the question the negotiators will have to hammer out is how far this effort is to be left to the Poles themselves without being given access to western European food markets or to what extent EU structural and agricultural funds are to finance the restructuring of Poland's rural areas.

Already the 15m inhabitants of the Polish countryside, or 40 per cent of the population, support an estimated 1.7m registered and unregistered unemployed. As more farms go out of production the rural areas will urgently need funds to support the growth of small businesses providing new jobs. Certainly this year's budget which has seen a 30 per cent cut in support for farming itself as well as rural development programmes is inadequate for the purpose.

At the same time a group of around 300,000 out of Poland's existing 2m or so mainly small farms are beginning to buy extra land, invest in equipment and intensify output. And this is the group which promises to mount a significant challenge to western European agricultural producers when Poland joins the EU.

One of them is Andrzej Wichniarek, a 42 year old farmer who has taken to expanding his milk production with a vengeance and, only half jokingly, says that he is planning soon to be taking his holidays in Switzerland. His farm is in Dobieszewo, near the town of Slupsk in north western Poland which, according to some experts, could become one of Europe's lowest cost milk production areas.

Mr Wichniarek, who currently owns 39 cows and farms 250 hectares, is planning within two years to double his milk output from last year's 180,000 litres as he takes advantage of a supply agreement he has signed with the Slupsk dairy owned by Nestlé, the Swiss food company. In just four years Nestlé has signed similar agreements with around 1,300 local dairy farmers to whom it has provided advice and some 6.5m zlotys ($2m) of financing to pay for milk cooling equipment.

The Nestlé dairy pays higher prices for better quality milk and, above all, gives the local farmers a sense of security about the future. This has meant that farmers like Mr Wichniarek are beginning to concentrate not only on milk production but also on quality and are replacing their herds with with high milk yielding Dutch animals.

The payback for Nestlé has been a significant improvement in the quality of the milk with the share of EU approved top grades last year reaching 68 per cent of all purchases compared to a mere 17 per cent in 1994.

"The farmers in Slupsk have been exposed to an international food processor which has deployed the most up to date techniques in an environment where people have a long farming tradition," says an EU farming expert, adding that this shows that Poland has the potential to become a significant producer of high quality food.

Meanwhile, Jacek Janiszewski, Poland's agricultural minister, takes a tough line on suggestions, contained in *Agenda 2000*, the EU's document outlining future reforms and enlargement issues, that Polish farming would be subjected to an interim period during which access to western European markets would be limited and the country's farmers would not benefit from EU subsidies of one form or another.

"We could not join on those terms," he says. "They would simply not be accepted in Poland."

Indeed, Solidarity RI, the movement's rural arm led by Roman Wierzbicki who supports the present government, has already organised a farmers' demonstration in Warsaw to underline the point that farmers must immediately, and fully, benefit from any farm regime which emerges from the planned reform of the CAP.

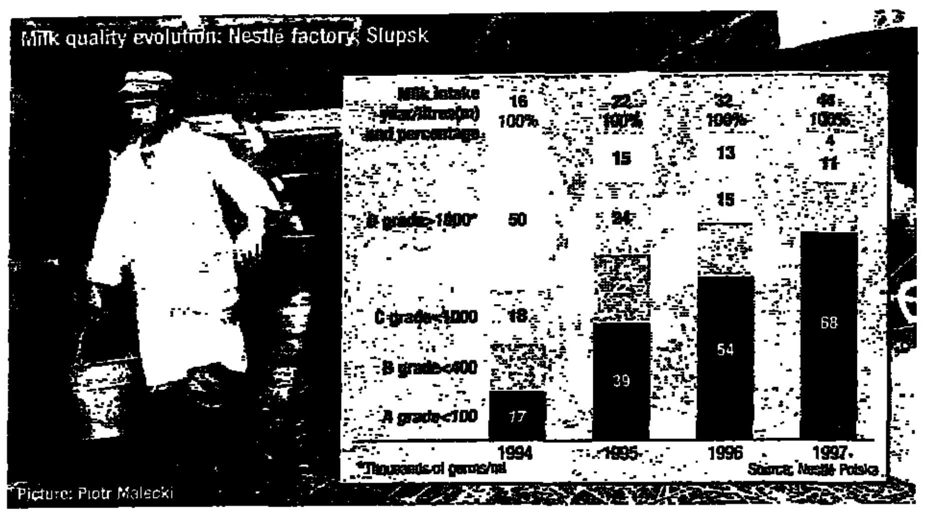
The Poles are also keenly aware that there will be some serious horse trading over production quotas which the EU will want to set in line with output in the present decade when demand for farm products slumped in line with the fall in urban incomes. The issue is important if Poland wants to expand production through making its farming more efficient and take advantage of the opportunities provided by growing demand in the countries of the former Soviet Union.

Last year, Poland ran a surplus of more than $1.2bn with the area as exports of food products rose by almost 30 per cent. In contrast, Poland saw a deficit of more than $400m in food trade with the EU.

For example, last year Poland produced 11.6bn litres of milk which corresponded to just more than half of Sweden's per capita consumption. But Poland was already producing around 12bn litres a year in 1960. Now it has told the EU that it is aiming for 16bn litres annual output after the year 2000.

The country has set itself similarly ambitious targets in other commodities, such as grain where the harvest reached 25m tonnes last year, but has told Brussels it plans to achieve annual outputs of 29m tonnes.

Warning shot: the country's farmers expect immediate returns from the EU




**ENVIRONMENT** • by Stefan Wagstyl

# Determined to ditch the dirt

## Industry has tackled pollution, now the task is to "green" the consumer

At Huta Katowice, Poland's largest steelworks, the clouds of steam billowing above the plant now carry less than a third of the pollutants that they did before 1990. Liquid and solid wastes have fallen by three quarters for each tonne of steel produced.

But nearby, in thousands of homes, householders burn coal in boilers and fires with little regard to the colour of the smoke they emit into the atmosphere. At the same time, those who can afford it are abandoning public transport and buying cars to add to the growing traffic jams on Poland's roads.

In the early 1990s, Poland's most serious environmental problems were concentrated in its large industrial plants and power stations. With the worst of these closed, reduced in size or modernised, pollution levels – notably emissions of industrial chemicals in the air and into the rivers – have fallen significantly. The concentration of particulates – such as dust and smoke – fell 41 per cent in Poland in 1990-95, according to the Organisation for Economic Co-operation and Development.

But, in Silesia, the most polluted region, levels remain disturbingly high. In the industrial black spot of Chorzow, particulate pollution stood at 123 micrograms per cubic metre in 1995, despite a 48 per cent decline since 1990. This is far above the national average of 26 micrograms and the EU limit proposed for 2005 of 30 micrograms.

With improvements in place in heavy industry, and more investments in the pipeline, attention is falling on other sources of pollution, including smaller factories, vehicles and households, such as the coal-burning homes around Huta Katowice.

Cutting pollution is a condition for Poland's planned entry into the EU because the country will be bound by tough EU-wide standards. The World Bank, in a report released late last year entitled *"EU accession and the environment"*, says Poland faces "a formidable task".

It estimates that the total cost of complying with existing EU standards could be $35bn-$52bn. Since the EU is proposing raising standards, the eventual bill could be even higher.

Andrzej Kassenberg, head of the Institute for Sustainable Development, a Warsaw-based non-governmental organisation, says estimates run as high as $200bn. "We don't know how much it will be. Nobody does."

The government says the World Bank exaggerates the problem. Lucyna Ciolkowska, an official at the ministry for environmental protection, says that as far as air pollution is concerned, Poland already meets existing EU standards. She concedes that planned future standards for 2005 would be "difficult to meet" in Silesia and a few other industrial areas but suggests Poland is not alone in that.

She feels that Poland gets a bad press because of the attention paid to Silesia. "We are not in such a bad position overall," says Ms Ciolkowska. "We have problem areas. But so do EU countries."

Water pollution is more serious, particularly in the Vistula and the Odra, the two main rivers which receive most of Poland's sewage. The government estimates that 37 per cent of the Vistula and 50 per cent of the Odra are polluted. Only one third of the sewage which flows into the Baltic is treated to the standards required by Polish law. Another third is partly treated and the remaining third is not treated at all.

Improvements in the 1990s have mostly been concentrated at sources of industrial pollution, with much less done to raise the standards of household sewage.

Ms Ciolkowska says that further progress will be more difficult and costly than the improvements made in the early 1990s. "We have closed most of what we were going to close. The cheap and effective measures have been taken. We are left with expensive measures."

Fortunately, no-one expects Poland to complete the clean-up programme quickly. The World Bank notes that EU members have been granted transition periods for environmental programmes of up to 14 years for urban waste water.

"Thus it may be reasonable for Poland to argue that a transitional period up to 2010 is the minimum necessary for it to implement any reasonable compliance strategy. In practice, a longer transitional period may be required since resources to implement any strategy are likely to be very limited for several years."

The World Bank says Poland would be in a much stronger position if it developed a coherent strategy to meet EU requirements by a target date. And Ms Ciolkowska agrees that Poland has to negotiate a reasonable programme with the EU.

Such a programme will involve difficult political and economic choices. For example, miners' households in Silesia burn coal because they can obtain low quality fuel very cheaply from the pithead. Many supply their friends and families. Under Polish law, households can use whatever fuels they choose. There is no legislation on smokeless fuels. Introducing new rules could run into serious opposition, even though the main beneficiaries of cleaner fuel would be people living in the immediate neighbourhood.

Economic growth could eventually make the financial burden more acceptable: as households grow richer they may prefer the convenience of gas and other clean fuels. But the transformation could not come quickly.

Persuading people to pay for waste water treatment could be even more difficult, since the beneficiaries of better services will often be downstream from those who are paying for them.

By contrast, industry is much less likely to resist investment in improvements because when companies replace plant the new equipment usually complies with international standards, as Polish law demands.

The World Bank estimates that by 2005, less than 25 per cent of Polish industrial capital will be pre-1990. Such investment, of itself, will reduce industrial pollution to 35-50 per cent of 1989 levels, says the bank.

However, economic growth is not of unalloyed benefit to the environment. As "old" sources of pollution disappear, "new" ones come on stream – notably in the form of a fast-growing motor vehicle population expanding at 30 per cent a year.

Mr Kassenberg says Poland must avoid the mistakes of the west in rushing towards mass consumption. "In transport we could have an ecological catastrophe."

Poland, a country with 40,000 storks, compared with just 12,000 in Germany, must preserve its natural diversity, he says.

Mr Kassenberg admits that such ideas are not even on the government's agenda but his institute is campaigning to raise environmental awareness and claims some success among better-educated young Poles.

Still, in a country where making a modest living is a considerable challenge, it will take time for the message to reach the more conservative corners.

Burning issue: Poles need an alternative to cheap coal *Camera Press*



**ENERGY** • by Christopher Bobinski

# Government set for power struggle

## Modernising a sector entrenched against change is a significant challenge

Privatising Poland's fuel and energy industry is one of the biggest challenges facing the country's new government as it treads warily down a path strewn with strategies its predecessors were forced to abandon by the sector's powerful union and management lobbies.

*Plans for the sale of the* coal and power generating sector are still being drafted by the treasury, in concert with the economics ministry, and seem destined to hold up sales in the sector. Indeed the greatest hope for progress lies with the sale of Poland's two oil refineries and the CPN petrol sales network where the government is being advised by Dresdner Kleinwort Benson and BMF, a local consulting firm.

The Plock refinery with an annual capacity of 13m tonnes is to be merged with CPN and sold, in the first quarter of next year, on foreign and domestic markets in a flotation which could bring the state treasury proceeds in excess of $1bn. At the same time, Janusz Michalski, the deputy treasury minister responsible for the sector, says he wants to see the Gdansk refinery, with its 4m tonnes annual capacity, sold by the end of the year to a trade investor who will be willing to finance a doubling of the plant's capacity.

The plan aims to turn Plock into a privately owned national oil company which will face competition from refineries in the Czech Republic and the former East Germany once tariffs on petrols are dismantled at the end of 2000. It also reverses earlier strategies which assumed that Plock would be sold to one of the international oil companies. *These* are now *dismayed* at the prospect of a privately owned rival being established in a market which some thought would serve to mop up excess refining capacity in Europe.

Indeed, one of the threats to a successful sale of Gdansk, which was originally built in the 1970s, is a plan by Preem, the Swedish oil company, to build a $70m petrol transhipment facility at the nearby port of Gdynia. The facility could supply a fifth of the Polish market and pose a grave competitive threat to the Gdansk refinery for which northern Poland is a natural market.

Meanwhile, plans for the sale of the power generating sector remain vague. True EdF, the French power company, appears to have successfully concluded the purchase of the Krakow heat and power plant having signed a long-term power purchase agreement with PSE, the Polish power grid. Also the treasury will soon be making a final choice *among* bids for the lignite fired Patnow–Adamow–Konin power plant which needs to spend around $1bn on modernising its 2,700 megawatt generating capacity.

And the small but ambitious Bedzin power plant in Silesia is moving ahead with plans for a stock exchange listing, the first in the sector.

The passage last year of an energy law establishing the framework for a market in power supplies, as well as the principle of third party access to the power grid, sets *the stage for privatisation of* the sector. However, this will have to wait for the findings, due by the middle of the year, of a government committee which, according to Krzysztof Konaszewski, the treasury minister responsible for the sector, is to report on bringing Poland's 36 currently independent power stations into between five and 10 holding companies.

"We will be merging the power stations and privatising them at the same time," he says.

The move has given rise to fears in the power sector that the economics ministry, which co-chairs the committee, will also seek to bring the loss *ridden and overmanned* coal industry into the holding companies. Mr Konaszewski says that he has not heard of any such moves but admits that individual hard coal mines, which are sole suppliers to power stations nearby, could be brought into the holding companies.

The sole coal mine presently envisaged for privatisation is Bogdanka, the only pit in eastern Poland, which was sunk in the 1970s and 1980s and has a monopoly on coal supplies along the eastern frontier regions. Mr Konaszewski promises a *tender* for a privatisation adviser will be opened soon.

The main problem for the government is to effect a cut *in the mining workforce* and close high cost mines without provoking unrest in Silesia, where the industry is concentrated.

Last year, the mining industry reported a loss of 1.9bn zlotys and Janusz Steinhoff wants to return the industry to a profit by the end of 2000.

The government plans to spend 500m zlotys on redundancy payments, retraining and grants to fund the establishment of new businesses by former miners. This should tempt around 16,000 to leave their jobs and, taken together with those who retire, should cut the mining workforce by around 30,000 this year from its present *level of 240,000*.

Any hope of significant privatisations in the industry will have to wait on further cuts in the labour force and in its present capacity.

THE SOUTH EAST • by Stefan Wagstyl

# Backward but coming forward

## New investors and established industry is bringing a remote region to the fore

Rows of McVities Digestives rolling out of a baking oven in a remote corner of south eastern Poland are a graphic reminder of the power of business to help integrate a country into the international economy.

The town of Jaroslaw, a few miles from the Ukranian border, is the site of only the second Digestives plant in the world. The other is in the UK, home base for the brand's owners, United Biscuits.

United Biscuits first invested in Jaroslaw in 1994 when it bought control of the *state-owned* Jaroslaw San baking plant. The British group has invested a total of £36m in the acquisition and a modernisation programme which has cut costs by reducing the payroll from 1,200 to 970 and created a marketing department.

"This is a very good place in which to invest," says Andrzej Domaradzki, the British-born human *resources* director. "For United Biscuits, Jaroslaw is a key part of its international strategy."

However, modernising most of the rest of the regional economy will take much longer.

South eastern Poland suffers from poor transport links with the rest of the country. The government plans to build an east-west motorway across southern Poland but it is a long-term project requiring private capital. The main rail links go via Krakow, extending the journey to Warsaw from Rzeszow, the south east's biggest city, to more than five hours. Rzeszow airport has no scheduled flights, though the local authorities hope to start some this year.

Before the First World War, the region lay in Galicia in the Austro-Hungarian Empire and missed the heavy hand of Russian and Prussian rule imposed on much of the rest of Poland. It retained much of its traditional rural conservative character, with the landscape dominated by peasant farmers working small plots.

After 1918, and again after 1945, it was also less influenced by economic change than much of the rest of the country, despite substantial investments in defence equipment and other plants.

Today, even though the fast-expanding mobile telephone networks reach most corners of the south east, the region retains a sense of distance from the rest of Poland.

"The people are so conservative," says Zbigniew Sieczkos, the governor of Rzeszow province, the region's hub. "Galicians defend their rights, even when they are fighting for their survival."

Mr Sieczkos, a local lawyer, wants the government to do more to promote the south east. "There's a big gap dividing the country between the east bank and the west bank of the Vistula."

The figures support Mr Sieczkos's view. Some 45 per cent of people in the south east (including the provinces of Rzeszow, Przemysl, Krosno, Nowy Sacz, Tarnow and Tarnobrzeg) work in agriculture and forestry, compared with a national average of 27 per cent. Unemployment in mid-1997 was as high as 13.7 per cent in Krosno province, compared with 11.3 per cent for the country as a whole. The region's six province's accounted for only 600 of the 30,700 companies with foreign capital in Poland, according to the Polish Agency for Foreign Investment, a government body.

There is scope for the region to take advantage of its relative backwardness. Pay rates are appreciably lower than in the big cities but local companies say the region's workers can be trained to the same levels as elsewhere.

The region has its industrial strengths. In Rzeszow, there is Zelmer, a maker of vacuum cleaner and kitchen equipment, which is at the forefront of commercial progress in Poland even though it has stayed in state hands. It exports about 30 per cent of sales, which last year totalled 439m zloty, including own-label products for Electrolux of Sweden, Rotel of Switzerland and Germany's AEG.

Nearby in Ropczyce, an industrial estate sits like an ugly scar on the patchwork fields of the surrounding landscape. But it provides work for some 750 people at Ropczyce magnesite works which makes heat-resistant materials for steel and other industries. "This is the most modern plant in Poland," claims Stefan Sliwinski, the president who has supervised extensive investments to boost efficiency and cut pollution.

Remote possibilities: thriving industry, such as Krosno, is changing the region's rural and conservative reputation *Michal Jankowski*

South of Rzeszow in the Carpathian foothills lies Krosno, home to one of Poland's best-known companies – Krosno glassworks, which exported hand-blown glass around the world long before the collapse of communism.

One of the first five companies listed on the Warsaw Stock Exchange, Krosno now exports about 60 per cent of its output, last year earning some $35m. The company has shed staff in unprofitable industrial glass and fibreglass producing divisions and concentrated on *hand-made products*, where it is recruiting new workers. Jozef Habrat, president, says expansion from this base cannot be rushed because it takes three years to train a glass-blower.

Other companies in the region are struggling to cope with transition. The industrial city of Stalowa Wola has been badly hit by the decline in two local heavy industries – steel and sulphur mining, which received favoured treatment for investment before 1990.

And in Jaroslaw, not far from the biscuits factory, is Jarlan, a garment maker which was privatised two years ago in the mass privatisation programme. Control passed to the Piast national investment fund which last year ordered management changes out of concern about continuing losses. Even though the company had already shed 900 of its 3,500 workers since 1990, some 600 more have gone in a new cost-cutting programme.

Andrzej Miller, president, is confident new investment in equipment and the development of a sales network will improve prospects.

Meanwhile, the authorities plan to develop the region's unspoilt mountains, forests and historic sites for tourism. Their hopes are shared by Wit Wojtowicz, director of Lancut castle, an 18th century stately home which, until 1939, was the centre of vast landed estates.

Mr Wojtowicz wants help to develop a hotel, shops and attractions at the state-owned castle and a heritage trail in the surrounding countryside. "This is such a beautiful place. We want more people to come and see it." Generating more income will be a long haul - only 2,000 of last year's 196,000 visitors were foreigners.

STEEL • by Stefan Wagstyl

# Heavy metal fights for status quo

## Modernisers, driven by the EU, are finding the industry resistant to change

Poland's steel industry has become an early testing-ground of the country's ability to restructure the more troubled sectors of its economy and of its approach to EU membership.

In the early 1990s, the industry was among the first in which the government, in negotiations with the EU, committed itself to creating modern, market-oriented operations from the legacy of Communism. But, after a rapid start, Poland has in the last 18 months failed to advance its restructuring plans as quickly as the EU hoped, raising fears that the programme might yet be halted by opposition from steel industry managers and workers seeking to defend their jobs. In particular, Poland has delayed an import duty reduction plan under which duties were to have fallen to zero next year.

The argument over the industry's future is likely to come to a head over the next few months as Poland has promised to complete a detailed restructuring plan for steel by the end of June. The EU wants to see the country's steel capacity reduced to commercially-sustainable levels and its markets fully opened to western European competition. Its officials fear that if the steel industry's future cannot be resolved amicably, it could cast a shadow over even more difficult negotiations over coal and agriculture.

But the omens for rapid progress are not good. Emil Wasacz, the treasury minister responsible for privatisation, is a former steel man under intense pressure from the industry to avoid capacity cuts.

He dreams of merging the bulk of the industry into a holding company, which would include Huta Katowice in Silesia and Huta Sendzimir in Krakow, the two largest mills. But the big mills want to operate and negotiate their futures independently.

Leszek Balcerowicz, the reform-minded deputy prime minister and finance minister, generally supports speedy privatisation. But on steel he is cautious. "We are working on a privatisation plan but we probably don't have time to advance it this year," he says.

The industry has already made considerable progress. Since 1990, 11 of 25 state-owned mills have been sold. And more than US$1.3bn has been invested in modernisation, including $300m last year, chiefly in continuous casting, raising its share of output from just 8 per cent to more than 50 per cent. Overall capacity has been cut from about 20m tonnes to around 12m and employment has fallen from 140,000 to 83,000, with retirements and the spinning off of non-core operations meaning few compulsory redundancies. And most of the investment has been financed with little government support.

But much remains to be done. Henryk Kaminski, director of industrial policy at the economics ministry, estimates that, even if capacity stays unchanged at 12m tonnes, the industry needs only about 45,000-50,000 workers once further modernising investments are made to raise efficiency to international standards.

The key requirement is capital. A consultants' report prepared for the government in 1990 recommended total plant investments of $3.6bn, some $2.3bn more than has so far been spent. It also estimated that financial restructuring and social security payments for laid-off workers could cost $900m.

The bulk of the funds would be spent at Huta Katowice and Huta Sendzimir which together produce about a third of Poland's steel and employ about half the workers in the industry.

With the industry's resources spent and the government short of money, the main hope for financing further modernisation lies in tempting foreign steel companies to invest. Earlier this year, Huta Katowice and Sendzimir launched formal invitations to potential investors. About 10 companies expressed interest, including Voest Alpine of Austria, Germany's Thyssen, France's Usinor Sacilor and British Steel.

Bids are due next month. Sendzimir is seeking an investment of about $500m-$1bn over about five years mainly in its downstream operations, including rolling mills. The plan is for the company to put its main steelmaking assets into a new joint venture with a foreign partner injecting capital and assuming control.

Katowice has two plans – for a $400m rolling mill for flat products, which might *absorb one third of its output*, and for a plant to produce rods and other long products.

The Sendzimir project is more likely to attract partners because the plant already has more in-house processing plant developed, including sheet rolling lines.

Katowice is a newer plant but is lop-sided, with extensive liquid steel capacity but *insufficient finishing equipment*. So it is forced to sell its products at low margins to other mills for finishing.

Any investor in Sendzimir would want to know what the government planned for Katowice. The danger would be that the government *might be forced to* offer bigger incentives at Katowice to secure an investor and so undermine Sendzimir's commercial position. The government recognises the problem and would, ideally, like the same foreign company to invest in both mills.

As Mr Wasacz says: "It would be best to get a joint investment plan (for the two mills) and avoid the danger *of excessive investment*."

The chances of finding a single investor for such large investments are remote particularly as most investors would be forced to take account of the wishes of the EU, which wants cuts in Polish capacity. The EU has not made specific proposals as it is waiting for Poland to make the first move. "We want to see Poland come up with figures which are a bit more realistic than those we have seen so far," says one western European diplomat.

It is difficult to see how Poland could make significant capacity reductions without reducing output at one of its two big mills, most likely Katowice since it lacks downstream capacity. But it would make little commercial sense to reduce output at a plant which is already operating below full capacity. The Polish government fears that such a reduction could lead only to eventual closure, which would be politically unacceptable.

Mill stone: Katowice's future is uncertain *Piotr Malecki*

STOCK MARKET • by Kevin Done

# Bulls send WIG flying

## The surge in the Warsaw bourse, driven by foreign investment, is set to continue

The surge in share prices on the Warsaw stock exchange in the past two months, after a slow start to the year, has underlined the bourse's new-found attractions for foreign investors.

Following a disappointing final quarter of 1997, the expected recovery in prices failed to materialise in January but investors have been well-rewarded during February and March with a rise in the main WIG index of around 25 per cent.

Warsaw has emerged from the shadow cast last year by the greater trading success of the Budapest bourse and many analysts are optimistic about the prospects for the rest of 1998 with expectations of a recovery in corporate earnings and sustainable economic growth coupled with falling inflation.

Despite some profit taking in the short-term, a recent report from ING Barings concludes that a deep correction is not expected. "Looking further out, corporate earnings are key to a longer term re-rating of the market. Should results over the first quarter show a marked turnaround, this could well drive the market to new highs, particularly if there is a positive move on interest rates in the second half of 1998."

The market has been driven up by a large inflow of foreign funds with banks – a dominant sector on the Warsaw bourse – and construction stocks reporting the strongest gains. Foreign investors play an important role on the Warsaw market in setting new trends in the direction of trading but they only account for around a third of the volume of trading and of holdings of Polish equities compared with a level of around two-thirds on the Budapest stock market.

According to the latest report on east European equity markets from Nomura, the Japanese investment bank, the high level of trading volumes so far this year – daily volumes have often exceeded $100m – provides further evidence of the strength of the developing bull market with some of the largest share price gains reported on days with the highest volumes.

Although share prices have already reached relatively high levels, Nomura expects the market rally to continue as international funds further reduce their holdings in Hungary, while remaining cautious on Russia.

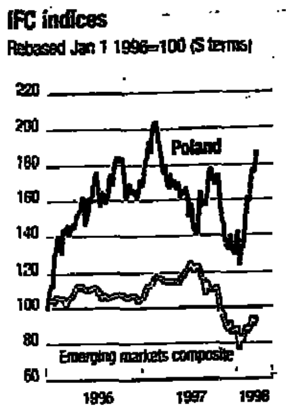
Since it was re-established in 1991, the Warsaw stock exchange has grown steadily from five to 155 listed companies reaching a market capitalisation of around $13bn, equivalent to around 10 per cent of gross domestic product.

"We realise this is only a beginning," says Wieslaw Rozlucki, chief executive of the bourse. "We have to reach around 25 per cent of GDP and that would still be low by west European standards."

He forecasts that this higher level should be achieved during the next four years, driven by the accelerating pace of privatisation with most of the big sell-offs of state assets expected to be completed by 2000-2002.

IFC indices

Rebased Jan 1 1996=100 ($ terms)




Source: Datastream/ICV

PROFILE Wyzsza Szkola Biznesu

# Investor in people

At first glance the small, industrial town of Nowy Sacz in south-eastern Poland, close to the snow-capped Tatra mountains and the border with Slovakia, is an unlikely place to find the cutting edge of transition in Poland.

But it is here, in buildings that were once the headquarters and workshops of a building materials company that went bankrupt at the beginning of the 1990s, that one of the country's leading private business schools is taking shape.

From the outside the main office building and the nearby factory sheds betray their industrial origins, despite their tidiness and the fresh paint. But inside they have been transformed into classrooms, lecture halls and a 230-seat lecture theatre. There is a library, both traditional and electronic, the school's own television studio and computer laboratories.

The Wyzsza Szkola Biznesu (Higher Business School) National-Louis University is part of the mushrooming non-state higher education sector in Poland, which now boasts 137 institutions, of which around 70 per cent are offering courses in business, finance and economics.

"We think about 15 per cent of students in the country are attending non-state colleges and this could increase to as much as 25 per cent in the next few years," says Krzysztof Pawlowski, rector of the Nowy Sacz school.

Mr Pawlowski, a Solidarity and, later, Christian Democrat senator in the upper house of the Polish parliament from 1989 to 1993, has been the driving force behind the school.

On one of his earliest visits to west Europe as a member of Poland's first freely elected parliament after the collapse of communism, he was taken to visit Germany. "I was trying to get a better understanding of the conditions of democracy." He came away convinced that such institutions would be vital in speeding up the transition from the command economy to the free market and private enterprise.

"The training of future managers is one of the most important tasks of our transformation. Poland's best resource in the global market is its people but they must be well trained.

"My idea was to multiply Poland's opportunities to compete through its people. It was a political idea. In the early 1990s the main problem was with the qualifications of the people in our economy. Now, for our integration into the European Union, our people can be our main advantage."

Starting with the setting up of a foundation in 1991, the college took shape with the help of the business community locally and nationally. It received the support of aid organisations in the US, Germany and Sweden and, crucially, the co-operation and backing of the National-Louis University in Evanston, Chicago.

People skills: training the managers of tomorrow

NLU provided the first syllabus and essential expertise in the teaching of English as a foreign language. The high level of language tuition, in particular in English and German, has helped establish the school's reputation.

Beginning in 1992 the number of students has doubled each year to reach more than 2,000 in the current academic year. Of these, 1,550 are in full-time study – paying more than $1,600 a year in tuition fees – 690 in part-time courses and 200 in postgraduate programmes. The school offers a three-year BA degree in business studies and the opportunity of one more year of study in the US to gain a US degree. There is a postgraduate MBA course in co-operation with the Maastricht School of Management in the Netherlands. From the next academic year it will also offer its own Masters degree.

The business school became financially stable in 1995 and is now able to develop on the basis of tuition and registration fees. The target number of BA students is 3,000 and the strategic goal is "to be recognised among the best business schools in central and eastern Europe".

**Kevin Done**

PROFILE LOT

# Flag carrier cleared for take-off

**Privatisation combined with a strategic alliance now being negotiated with British Airways (BA) looks set to give LOT, Poland's fiercely independent national carrier, a chance to develop into a strong regional airline able to capitalise on the country's location in central Europe.**

**Management morale has soared as the government has dusted off plans for the sale of equity shelved by the previous, former communist, administration. The disposal, together with an urgently needed capital increase, gives the airline a chance to ease the heavy financing burden it ran up when it replaced its entire Soviet made fleet with western aircraft after 1990.**

**"We did things the other way around," says Jan Litwinski, LOT's managing director, referring to investments by Alitalia of Italy in Hungary's Malev and by Air France in CSA, the Czech airline early in the 1990s. These investments have since unravelled with the withdrawal of the foreign partners. "We modernised our fleet first and now we are going for privatisation."**

**Now LOT, with its 28 US made Boeing aircraft and some French ATR planes, has one of the most modern fleets in the world. However, the payments on the leasing arrangements ran to $98m in 1997 and $110m this year and amount to around a fifth of the airline's total costs. These costs help explain the airline's net loss of around $30m last year and continuing losses are expected for this year.**

**"The capital increase which will accompany the sale of equity must bring in between $200m and $250m to enable us to lower this burden and invest in more aircraft" says Mr Litwinski.**

**In addition, LOT is planning a $100m medium-term bond issue by this summer to lower its short-term financing costs.**

**The terms of the privatisation have yet to be decided and much depends on the advice provided by the merchant bank currently being sought to lead the sale. Alicja Kornasiewicz, the deputy treasury minister responsible for the sale, has already said that present laws, which forbid the disposal of more than 49 per cent of the airline, will have to be changed to allow full privatisation. A measure of state control over the airline can be secured through a golden share arrangement, Ms Kornasiewicz says.**

**"Certainly we are not ready for a stock exchange listing now but maybe in five years," says Zbigniew Kiszczak, who is responsible at LOT for the privatisation process. Both he and Mr Litwinski say that they have no objection to having a strategic investor, such as BA or American Airlines (AA), purchase stock should the government want to take this path. "Or there could just be passive institutional investors," says Mr Kiszczak.**

**A possible investment by airlines from the BA-led group with which LOT is currently negotiating an alliance would formalise the code sharing and marketing agreements which lie at the base of the deal. This will allow airlines to sell seats on each other's flights and allow LOT to become part of a global network competing with the two alliances already in place – Star, led by United Airlines and Lufthansa, and a partnership between Delta Airlines and Swissair.**

**LOT's agreement with BA is expected to be in place by the end of May. This should secure Warsaw airport's role as a regional hub and allow the Polish airline to nurture its transatlantic routes which cater for Poles living in the US. LOT also wants to retain its position in western Europe and connections with the republics of the former Soviet Union.**

**"We have significant potential with a market of 40m Poles at home and 15m living abroad," Mr Litwinski says, optimistically noting that LOT carried a record 2.4m passengers last year and expects to see the figure growing by 15 per cent a year. "We carried 2.3m in 1989, previously our best year, flying 47 Soviet made aircraft while last year's load was carried by 28 aircraft," he adds.**

**LOT's charter traffic is growing fast as middle class Poles switch to holidaying abroad. Last year, LOT carried 28,000 charter passengers, or 86 per cent more than in 1996, while holiday companies have already booked 190,000 seats for this year.**

Christopher Bobinski

BANKING • by Kevin Done

# Progress at pace

## Privatisation of state banks moves ahead this year with the sale of Pekao

When the state-owned Pekao bank group, Poland's largest commercial bank, reaches the starting line for privatisation in mid-year, the restructuring of Polish banking will reach a watershed with more than half of the sector's assets in private hands.

In spite of the growing wave of privatisations and the rapid development of the banking system Poland is still "under-banked" compared with west Europe. Total assets of the banking sector at the end of 1996 were only around 55 per cent of gross domestic product compared with western levels of around 100 per cent. And bank lending as a percentage of GDP is still well behind both Hungary and the Czech Republic.

But Poland is closing the gap. According to a recent report by Goldman Sachs, the US investment bank, "having ambled off the starting blocks a few years ago, Polish banks are now sprinting towards change and development".

The catalyst for restructuring is an increasingly competitive financial services environment. Goldman Sachs says that banks are vying to position themselves in growth markets whilst defending their franchises against domestic and foreign rivals.

Many banks have only recently entered new areas, such as investment banking, retail banking and asset management, as they seek to build universal banking structures. And the sector – with 82 commercial banks plus the co-operative banking system – remains ripe for consolidation. Consumer finance is growing rapidly and recent changes in regulations are opening the market for mortgage finance.

"The Polish banking system has two years to catch up with events in Europe, with service and with the rates that are offered," says Shirish Apte, president of Citibank (Poland). "The foreign banks are more efficient, so there will be great pressure on costs."

Foreign banks are showing an increasing interest in building up operations in Poland, either through the acquisition of stakes in previously state-owned banks, in the case of institutions such as ING Bank of the Netherlands, Commerzbank of Germany or Allied Irish Bank, or through the development of new operations, in the case of the Citibank.

Citibank of the US has already invested more than $225m in its Polish operations and expects to have a workforce of around 700 by the end of the year as it expands from corporate into personal banking.

In 1993, ING took a 25.9 per cent stake in Bank Slaski, one of nine regional banks spun off from the National Bank of Poland in 1989. It increased its holding to 54.1 per cent in mid-1996, making Bank Slaski the first of the banks split off from the NBP to become majority-owned by a foreign investor.

Commerzbank has built up a stake of 48.7 per cent since the end of 1994 in Bank Rozwoju Eksportu (BRE), a medium-sized corporate and business bank, acquiring its final tranche in September last year. Other foreign investors in BRE include Erste Bank of Austria and Banca Commerciale Italiana each with around 3 per cent.

Allied Irish Bank has a 60.2 per cent stake in Wielkopolski Bank Kredytowy (WBK), the western Poland bank spun off from the NBP, acquiring its latest tranche of 24 per cent last year.

The biggest privatisation to date was last year's flotation of Bank Handlowy, which became the second largest listed company on the Warsaw stock exchange (after KGHM, the Polish copper producer) with a market capitalisation of around $1.3bn. As part of the privatisation, the bank, which enjoyed a monopoly on foreign trade in the communist era, gained three foreign investors.

J.P.Morgan, the US investment bank, has taken a 12 per cent stake, and will advise on corporate and investment banking. Sparbanken Sverige (Swedbank) has taken a 6 per cent stake, and will support the growth of the Polish bank's retail network and products, as has Zurich Insurance which will advise on retail insurance and investment products as well as corporate life and pension plans.

The current privatisation programme includes the sell-off of Bank Zachodni, a regional bank headquartered in Wroclaw, and the sale of most of the state's remaining 46.6 per cent stake in Bank Przemylowo-Handlowy (BPH), the Krakow-based bank in which ING and the European Bank for Reconstruction and Development already hold stakes of 12.6 and 15.1 per cent respectively. Expressions of interest for the BPH stake have already been received from 7 banks, including ING.

The main focus of the privatisation effort, however, is on the more complicated task of floating the Pekao group, the largest state-owned bank. It was created in late 1996 when Pekao, which had originally been set up as the foreign currency savings bank in Poland, was given ownership of three regional banks – Powszechny Bank Gospodarczy in Lodz, Bank Depozytowo-Kredytowy in Lublin and Pomorski Bank Kredytowy in Szczecin. It is the largest banking group in Poland with around 20 per cent of the industry's assets, deposits and loans.

According to Igor Chalupec, Pekao managing director responsible for investment banking and a board member, the privatisation is planned in three stages with an initial public offering (IPO) of 15 per cent of the equity scheduled to take place by the end of the first half of this year and a further tranche of around 35 per cent to be sold to one or more strategic investors by the end of 1998. The timing of the third stage is less clear and is tied to the development of the government's plans for pensions reform.

Financial analysts suggest that the flotation could value the bank at between $1bn and $1.25bn. Alicja Kornasiewicz, secretary of state at the Treasury ministry, says the government has already received two expressions of interest from foreign investors, one bank and one insurance company. There will also be a distribution of around 15 per cent of the equity to the group's 22,000 strong workforce.

The restructuring of Pekao remains a tough challenge with much work to be done to integrate fully the four constituent banks, with around 560 branches and outlets, into one group. Big investments must be made to provide the group with a common information technology and management is still in the midst of tackling the thorny issues of implementing a common credit policy, of centralising the treasury functions, unifying products and rationalising the workforce. Around 9 per cent of the group's loan portfolio is classified.

TELEVISION • by Kevin Done

# Poles seen as captive audience

## Private media groups are vying to win over one of Europe's largest markets

Poland is set to enter the digital television era next month with the planned launch of a 15-channel direct-to-home satellite pay television service, the first in east Europe.

With a population of close to 40m, Poland is proving the most attractive market for western investors seeking opportunities in the region's rapidly developing television industry. The battle for viewers is intense, both between rival pay television operators and private commercial television channels.

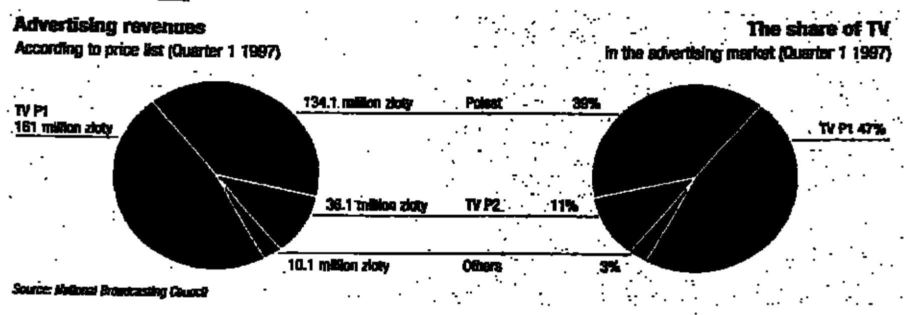
The price for the entry ticket is rising. The US-financed @Entertainment, the leading cable operator in Poland with 767,000 subscribers, plans to launch the country's first digital television platform on April 18 and to invest between $375m and $475m during the five years from mid-1997 to develop its business as a vertically integrated multichannel operator.

It is having to move fast to establish its bridgehead in the market ahead of Canal Plus, the French pay television operator, which has been running a single, analogue pay television channel, Canal Plus Polska, since early 1995 and has itself announced plans to launch a rival digital platform.

Canal Plus, which has 240,000 subscribers for its existing channel, is still to announce a definite launch date for its digital package of themed channels but it has recently demonstrated the set-top decoder technology it plans to use.

Both Canal Plus and @Entertainment are adamant that, at the current stage of economic development in Poland, there is only room in the market for one multichannel service.

Bob Fowler, chief executive of @Entertainment, says the group is aiming to gain 500,000 subscribers to its direct-to-home digital service within 15 months of launch.




The channels are to be packaged under the brandname Wizja TV. They will all be Polish language channels ranging through films and sports to music, children's and information channels. The company has already secured the rights to channels such as *The Cartoon Network* and *Fox Kids* and it has an equity stake in the music channel *Atomic TV*.

The receiver equipment, including the set-top decoder box and satellite dish, will be sold through more than 1,000 Philips electronics dealers across Poland. The first 500,000 subscriptions will be heavily subsidised at an annual price of around $160 (including VAT) and, Mr Fowler says, the group is committing around $200m to the start-up costs, excluding the acquisition of programming.

The signals will be uplinked from studio facilities at Maidstone in the UK and will be transmitted via transponders on two Astra satellites. The company, which has been listed on the Nasdaq stock exchange in the US since August last year, raised $200m in its first share issue last year, which followed a $130m issue of high-yield bonds in 1996. It is planning to raise more capital in the high-yield bond market later this year.

In terrestrial commercial television Central European Media Enterprises (CME), which has pioneered private commercial television in several other countries in east Europe, is making its biggest investment to date, around $40m, to break into the Polish market.

With its local partner ITI Holdings, the Polish media group, it launched a new commercial channel TVN last October. But it is finding the going in Poland much more difficult than in most of the other markets in the region where, as a rule, it arrived as the first real challenger to the existing monopoly public television service.

In its first months of operation it has had to compensate advertisers after failing to reach the share of viewers, it had promised in its original contracts. "It is a tough time," says Luc Tomasino, deputy general director of TVN. "It is much more stressful than in other markets, it is a daily struggle to compete."

Because of restrictions on foreign ownership of broadcasters in Poland, CME holds the maximum stake of 33 per cent in TVN with 67 per cent held by ITI. The authorities are currently considering amending the legislation to raise the limit on foreign ownership to 49 per cent.

TVN was awarded television broadcast licences last year for northern Poland and the cities of Warsaw and Lodz. It has also acquired 100 per cent ownership of TV Wisla, which operates a regional television station in southern Poland. Licence conditions stipulate that programming produced in Poland must account for at least 30 per cent of the total programming this year, rising to 40 per cent in 2000.

CME also owns a 50 per cent share, directly, and 5 per cent indirectly in Federacja, which sells advertising on behalf of TVN and through which CME is aiming to develop a Polish television broadcast network to sell advertising and broadcast programming through affiliated stations.

Poland is Europe's fifth largest television market with 12.3m television homes and is comparable in size to Spain. It has one of the highest viewing levels in the world with families watching more than 4.5 hours of television on average per day, about 5 per cent more than the average American home. It is the largest single-language market in central Europe.

The dominant audience share is still held by Telewizja Polska (TVP), the public service broadcaster, with its two channels, TVP1 and TVP2, gaining around 55 per cent of viewers. It's market share has, in part, been protected by having the best frequencies.

Polsat, the first terrestrial private commercial channel established in Poland under a licence granted in 1994, has built up its audience share to between 30 and 35 per cent, while TVN claims that it currently has around 6 per cent of the national audience. It is aiming to expand this to around 10 per cent by the end of the year.

PROFILE Gazeta Wyborcza

# Growing voice of dissent

In a newspaper and magazine market dominated by foreign publishers *Gazeta Wyborcza*, a daily with its origins in the dissident past, is successfully facing the competition and building central Europe's first locally controlled print-to-broadcast media group.

Last year's revenues of around $100m and a gross operating margin of $30m earned on the back of Poland's largest daily circulation of around 500,000, have allowed the paper's management to raise loans to build technologically advanced printing facilities and finance a move into radio and television.

*Gazeta's* origins lie with the *Tygodnik Mazowsze*, an illegal, fly sheet which faithfully recorded the fortunes of Solidarity's opposition to martial law in the 1980s. *Gazeta* was born in 1989 when the communist authorities conceded that Solidarity should have a paper of its own ahead of Poland's partially free elections.

Later, Cox Enterprises, a private US media group which owns a 12.5 per cent stake in the company, played a crucial role in providing know-how as the *Gazeta* has grown. The force behind the newspaper's drive to expand into other media sectors is a determination to protect the paper's editorial freedom.

"Profit is important but we never forget that positive cash flow is crucial to maintaining our independence," notes one of the paper's managers.

The company has moved into local radio and already owns six stations with plans to double the figure at an investment cost of around $10m. The purchase, last year, of a 20 per cent stake in a pay television station run by Canal Plus of France provides a third arm of the group while plans are also in train to provide data services.

The *Gazeta* is thought to be planning a bourse flotation which would provide access to capital and allow a market valuation for a planned management stock programme. An initial public offer would also allow many of the *Gazeta's* 2,500 employees an opportunity to purchase stock.

Adam Michnik, once a noted dissident and intellectual who retains a strong passion for politics, is the editor in chief. And the editorial board continues to be dominated by veterans of the former opposition, such as Helena Luczywo who is also a member of the paper's management.

Wanda Rapaczynska, a returning emigré with a Yale business school diploma and experience with Citibank's retail banking operations, is in charge of a strategy which aims at focussing the group strictly on media activities.

Chris Bobinski

PROFILE Lodz Film School

# Different direction

Among the countless Polish institutions established under communism, few won as much affection at home, and respect overseas, as the Lodz Film School.

Founded in 1948, the school was the training ground for most of Poland's post-war film-makers, including Andrzej Wajda, Roman Polanski and Krzysztof Kieslowski. Millions queued to see their films in the years when the censors banned most Hollywood-made features.

Today, as Lodz celebrates its 50th anniversary, its role is uncertain. Now that the thought police have gone, its heroic age seems over. No longer do the students learn how to play games with the censors. Instead, like their counterparts in the west, they must struggle with the exasperating demands of freedom and the free market.

Whereas once they were almost guaranteed work in the state film industry, now they must fight for jobs in a competitive world. As in the west, some succeed as film-makers. Others go into advertising and television.

The school has changed too. Under communism, almost all students were Polish. Now about half the intake for the prestigious film-making courses are foreigners, paying $12,000 a year for the privilege. As Andrzej Bednarek, the vice-rector, says: "Life is easier than it was under communism but some of the drama has gone."

Mr Bednarek, who arrived as a student in 1970, knows every corner of the rambling early 20th century mansion in which the school was established. He points to a long flight of wooden stairs where Polanski and his friends used to sit, drink and hold long-jump contests.

He remembers a celebrated visit by Lindsay Anderson, the director of the anarchic film *"If"* in which pupils take over an English public school. The Lodz students welcomed Mr Anderson by staging his film's final scenes in which the rebel pupils appear on the school roof firing machine guns. "We used blanks," says Mr Bednarek. "Anderson did just the right thing. He fell over and played dead."

Despite the disapproval of the authorities the school became an "island" of relative freedom in an unfree world. The government was prepared to tolerate Lodz because it wanted to encourage the domestic film industry and share in the popularity of the country's top film-makers.

The students pushed this tolerance to the limit – both at the school and in later professional life. But most learnt to avoid going too far, as a career in films was too valuable a prize to lose. As Mr Bednarek says, the art was to pursue ambiguity and give political meaning to the most innocent of images.

"In a sense every film was political. Even to make films about the every day life of ordinary people was difficult. The authorities did not like the truth. It was too black."

Mr Bednarek says that with the fall of communism, Polish cinema has lost some of its distinctiveness. "Before, film-makers had to speak with two tongues. It was an art to get something past the censor. Now, we must develop a new voice."

Mr Bednarek was speaking as a newly-released Polish film, called *Kiler*, is breaking all records for the domestic industry by attracting 2m to the cinemas. It is the first Polish film in the 1990s to have scored as big a hit at the Polish box office as US-made blockbusters.

But Mr Bednarek shows little enthusiasm for this comedy about a man who is mistaken for a gangland hit-man and learns to like his new life. "There is no point making entertainment films like the US. Hollywood does that better. We must find something new."

Mr Bednarek says every day life still has hidden potential for film-makers. He admires Mike Leigh, the British director of *"Secrets and Lies"* and *"Career Girls"*, domestic dramas which he says have great force.

For students, as for their counterparts elsewhere, the overwhelming priority is to make a first film and have their work recognised. "It is so difficult starting out," says Grzegorz Zglinski.

Their time in Lodz will give them more chance than most. Kim Hee-Jung from South Korea says: "This film school is different. It does not have an American atmosphere. There's a Polish atmosphere. Like Polish music and painting. It's a bit sad. It's to do with the country's history. It's not so happy."

Stefan Wagstyl

Reel success: Kieslowski is a Lodz graduate Moviestore

**TELECOMMUNICATIONS** • by Kevin Done

# Hanging on the telephone

## Privatisation is beginning but the dismantling of the state monopoly moves slowly

Telecommunications reform in Poland, which has lagged behind other countries in the region, is finally gathering pace. The government is preparing to launch the first stage of the privatisation of Telekomunikacja Polska, the telecoms utility, later this *year and promises to end* the monopoly on domestic long distance calls in 1999.

Last year was also the first full 12 months of a competitive market in mobile telephone services with a rapid acceleration in subscriber growth following years of slow development. With around 900,000 subscribers Poland has become the largest cellular market in central and east Europe, although it is still far behind penetration levels reached in Hungary and the Czech Republic.

Alicja Kornasiewicz, secretary of state at the Treasury ministry, which holds the state shares in TPSA, the telecoms utility, says that government is planning the sale of a 20 per cent stake through an initial public offering, which is due to take place in the last two months of the year.

The flotation of TPSA promises to be the biggest capital market transaction *in central Europe this year.* The government is selling a 10 per cent stake with a further 10 per cent sold through an issue of new shares by the telecoms operator itself. The sale could raise around $2bn and the listing is expected almost to double the size of the Warsaw stock exchange.

"We are determined to get it done this year," says Ms Kornasiewicz, rejecting suggestions from some financial analysts that the timetable is too optimistic.

*Between 6 and 7* per cent of the state stake will also be used to give shares to the 72,000 employees of the sprawling utility, with a further 5 per cent to be granted to the state restitution fund, she says.

The share offering is planned to be the first stage of the privatisation of TPSA and Ms Kornasiewicz says that it will be followed by the sale of a further stake to one or two strategic investors "maybe by the end of next year".

The previous management of the telecoms utility, which was believed to be unenthusiastic about the privatisation plans of the new government, has been replaced in the far-reaching reshuffle of senior executives which followed the political appointment of a new supervisory board.

The new management board has only been functioning since January following the appointment as chief *executive of Pawel Rzepka, a* 40-year-old former telecommunications engineer, who played a key role in the splitting of the old posts and telecommunications utility which created TPSA at the beginning of the 1990s.

**Polish telecoms: market indicators**

| | 1995 | 1996 | 1997a | 2000f |
|---|---|---|---|---|
| Cellular subscribers | 82,000 | 241,000 | 858,000 | 3,640,000 |
| Cellular penetration (% population) | 0.21 | 0.62 | 2.22 | 9.38 |
| Fixed lines (m) | 5.73 | 6.54 | 7.24 | 10.54 |
| Fixed lines penetration (% population) | 14.85 | 16.92 | 18.71 | 27.02 |
| Digitalisation of lines (%) | 33.9 | 43.2 | 50.8 | 85.0 |
| Waiting List (% of population) | 5.8 | 5.7 | n/a | 2.1 |
| Population (m) | 38.6 | 38.6 | 38.7 | 39.0 |

Source: ING Barings

Mr Rzepka says that the initial public offering is aimed at achieving several *goals, including establishing* the market price of the company, strengthening the Polish capital market, raising new capital for the development of TPSA and fulfilling the statutory obligation to provide shares for the employees.

He estimates that the annual investment needs of Poland's fixed line telephone operator are now running at around $1.2bn a year as it struggles to close the gap on the leading telecoms utilities in the region, in Hungary and the Czech Republic, and to provide more lines and a shorter waiting list for customers currently waiting an average of 40 months to have a telephone installed.

With 7.6m lines installed, telephone penetration in Poland is still low at around 20 lines per 100 inhabitants. Only about 65 per cent of lines are digitalised and penetration in some rural areas is as low as 4 per cent.

Mr Rzepka says that TPSA *will maintain its heavy* investment programme aimed at installing 1m new lines a year but it is seeking to change from growth in numbers to quality.

"We want to maintain growth of new lines at about 1m a year but not increase this. We want to invest more in new directions, in data transmission, in broad spectrum networks and mobile phones and improve the efficiency of the network we have now. Before, TPSA had a social mission, the responsibility to provide telephones for all, but we must move towards commercial activity," says Mr Rzepka.

TPSA, with its monopoly over long distance and international calls, has been slow to reform and still faces an uphill struggle to restructure its bloated workforce, to improve efficiency, above all, to lower tariffs.

Marek Zdrojewski, telecommunications minister, claims that changes in the price structure will result from the new telecoms legislation, which is currently being drafted for presentation to parliament in September. The legislation, which will create a new regulatory office for the telecoms sector and bring Polish law into line with the EU, could be approved in the first quarter of next year.

The law will address the "delicate social problem" of increases in local call tariffs by introducing a cost-based formula for prices aimed at reducing cross subsidies for services. "We cannot do the price changes overnight, *local calls are still significantly subsidised."*

Most importantly, the TPSA monopoly on domestic long distance traffic will be lifted next year. Foreign investors will probably be limited to a share of 49 per cent in new operators, though this constraint is still to be discussed with Brussels. The long distance tender is due to be announced around the end of the year.

Mr Zdrojewski insists, however, that the lucrative TPSA monopoly on international calls will remain in place until the end of 2002.

The market for local operators has been liberalised since the early 1990s and the government is hoping to complete the licensing process this year with the big cities of Warsaw and Lodz as the main prizes on offer.

The mobile telephone market has expanded very rapidly since the two GSM operators started their services *in the autumn of 1996.* Polska Telefonia Cyfrowa (PTC), which operates under the brandname of Era GSM, includes US West and Deutsche Telekom as its main foreign investors each with 22.5 per cent stakes alongside Elektrim, the leading Polish trading company with 32.9 per cent.

It already claims more than 300,000 subscribers and will have invested around $500m by the end of the year in a network covering around 80 per cent of the country and 90 per cent of the population.

Its main rival Polkomtel, which operates the Plus GSM network, is close behind with nearly 300,000 subscribers. Its main investors are Airtouch of the US, TeleDanmark and the Polish groups KGHM, the copper producer and Petrochemia Plocks all with the stakes of 19.25 per cent.

Centertel, owned 66 per cent by TPSA and 34 per cent by France Telecom, holds the old NMT analogue licence and offers a digital service under the first GSM 1800 licence granted in Poland.

TPSA is lobbying for a GSM 900 licence for Centertel to improve its attractiveness ahead of privatisation.

PROFILE

## A wider net

Netia has emerged as the largest private provider of local fixed line telephone services in Poland since winning its first local licence in 1991. It holds the concessions for five of the 10 biggest cities – Lublin, Krakow, Gdansk, Poznan and Katowice – and has licences covering a third of the population.

The company is owned 26 per cent by Telia, the Swedish telecoms operator, with four other main investors, Dankner Investments from Israel, Shamrock Holdings, Trefoil Capital Investment and Goldman Sachs Capital Partners.

Meir Srebernik, chief executive, says that Netia is well placed to compete with TPSA for the significant vacant local licences and in the tender for the long distance licence.

It has invested more than $200m to develop its network and is aiming to secure 290,000 subscribers by the end of the year.

And Mr Srebernik says the company wants to reach 700,000 subscribers on line by the end of 2000. "We are looking for 20 to 35 per cent market share in areas where we have licences."

Netia wants earlier liberalisation of the sector to overcome its expensive dependence on TPSA for the inter-connection of its traffic.

"The market is still stagnant. The structure has not changed and the services will not become cheaper until you open domestic, long distance and international traffic to competition," says Mr Srebernik.

Kevin Done

**AUTOMOTIVE** • by Kevin Done

# Life in the fast lane

## Foreign investment and expertise has seen the industry change gear

After two years of hectic growth the Polish car market has grown to take sixth place in Europe behind the big five of west Europe – Germany, Italy, France, the UK and Spain.

New car sales jumped by 27.6 per cent to 477,960, last year, following a rise of 41.3 per cent a year earlier, helped by the strong growth in the Polish economy and the increasing availability of consumer finance, as inflation and interest rates fall.

Poland has become the most attractive location in central Europe for inward investment by car producers and automotive components suppliers and vehicle output is set to rise rapidly in coming years with Daewoo of South Korea, Fiat of Italy and General Motors of the US all investing heavily in new capacity.

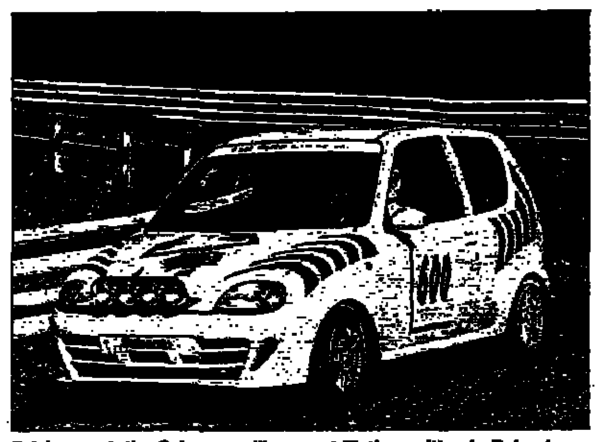
Successive Polish governments have made great strides in privatising and restructuring the auto industry to enable it to compete successfully inside the European single market, as import tariffs fall and the country prepares to join the EU. The present government is seeking to tighten import regulations from the start of 1999 to discourage simple kit assembly and to promote additional investment in industrial production.

*The antiquated Polish car* industry is being transformed thanks to the takeover of the main car producers FSM and FSO by Fiat and Daewoo respectively. These two groups now dominate the Polish new car market, although their shares are coming under heavy attack from rival European, US and Asian producers.

The Fiat group captured 35.3 per cent of new car sales in Poland last year with Daewoo in second place with 26.3 per cent. The VW group, led by Skoda, its Czech subsidiary, captured a share of 10.9 per cent with GM in fourth place with its Opel brand at 9.2 per cent.

GM is building an integrated car plant on a greenfield site at Gliwice in southern Poland with an initial investment of DM530m to create a capacity to produce 70,000 cars a year. Production is due to start in September and capacity is expected to be doubled to 150,000 cars a year in a second stage early in the next decade with the introduction of a second car range currently under development with Suzuki.

Isuzu, GM's Japanese affiliate, is also building a DM300m, 300,000 a year diesel engine plant at nearby Tychy, *mainly* to *supply* GM's Opel/Vauxhall plants in west Europe.



Driving seat: the Seicento will cement Fiat's position in Poland

Volkswagen of Germany is looking for a site to build engine and seat plants and Toyota of Japan is negotiating for the construction of a gearbox plant. A Polish entrepreneur is also discussing conditions for starting the assembly, under licence, of Hyundai cars.

Fiat, the traditional partner of the Polish car industry in the communist era, remains the leading firm thanks to its acquisition of FSM, since renamed as Fiat Auto Poland, in the early 1990s. Inevitably, its market share has fallen as competitors join the fray but output from its two plants in southern Poland, at Tychy and Bielsko Biala, rose by 6.7 per cent last year to 327,906 cars.

The Tychy plant has been the Fiat group's sole production source worldwide for its Cinquecento city car. The *plant's fortunes should* be strengthened by the imminent launch of the new generation Seicento, which is due to go on sale across Europe from the end of this month, replacing the Cinquecento. Fiat expects full-year production of the Seicento, which has been developed at a cost of around $200m, to reach 250,000 in 1999 compared with the 203,589 Cinquecentos produced last year.

A large part of the Cinquecento output has been exported with foreign sales accounting last year for 156,000 of Fiat Auto Poland's total output of 328,000.

*According* to *Massimo* Gentilini, chief executive of *Fiat Auto Poland*, the *Italian* group has invested more than $1.3bn in Poland between 1992 and 1997 and is planning to invest a further $500m by 2002. The turnover of the Fiat group's operations in Poland totalled more than $2bn last year, including sales by its components subsidiaries, and it has become one of the country's biggest private sector employers with a workforce of around 14,600, including 12,000 at Fiat Auto Poland.

While Fiat is well entrenched, its leadership is under heavy attack, most importantly from Daewoo. The South Korean carmaker has taken on the onerous task of restructuring the sprawling operations of FSO, the Warsaw-based car producer with its 20,000-strong workforce, in an effort to turn it into the spearhead of an ambitious assault on the European car market.

Suk Jin-Chul, president of Daewoo-FSO, says that Dae*woo's plans to invest around* $2bn in the Polish auto industry between 1996 and 2001 have not been affected by the financial and economic crisis in Asia. "We have not slowed the pace of investment."

Mr Suk says that $1.1bn is being invested in the Daewoo FSO car operations, a further $400m at its components subsidiaries and $510m at the Lublin-based commercial vehicle plant.

The Korean group is already at an advanced stage in the construction of a car plant on the site of the old FSO Warsaw complex, including a new paint plant and final *assembly hall*. A new line of heavy presses for producing stamped sheet steel body panels has already been installed, and the old body welding shops are being reorganised for the production of Daewoo models led by the Lanos small family car and, later, the larger Nubira and Leganza ranges.

Assembly of the Lanos, which started last autumn, will be moved into the new final assembly hall in September and production of the Nubira and Leganza models is scheduled to start in February next year. Construction of the $209m paint plant should be complete by *November with the capacity* for producing 60 cars an hour.

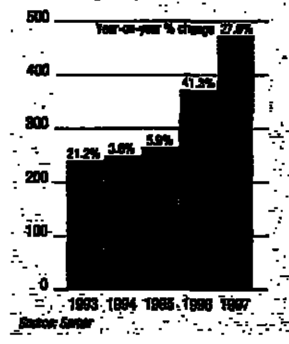
The group is working hard to localise more of the components supply and is aiming to reach 67 per cent local content for the Lanos later this year and as much as 80 per cent by 2000. Many of the former FSO components sub*sidiaries* around *Poland have* been transformed into joint ventures with Korean parts suppliers – 17 are already established and two more are planned. Some engines and gearboxes will be supplied from a new plant under development in Romania.

Car output last year of 106,413 – still dominated by the old FSO Polonez model and including simple kit assembly of several Daewoo models – is supposed to be raised to 186,500 this year. Production of the Polonez will continue while there is demand, says Mr Suk, but its days are numbered, as the Polish market becomes more *sophisticated.*

In addition to the Warsaw-based car operations Daewoo is building light commercial vehicles, mainly panel vans, in Lublin, as well as Polonez-based pickups in Nysa and diesel engines in Andoria.

"The strategy is to increase the production capacity, to localise the parts supply to make our products more competitive and have a good chance to export and to develop a research and development centre," says Mr Suk. By mid-2000 Daewoo aims to have a capacity in Poland to produce 520,000 cars a year, between 150,000 and 200,000 light commercial vehicles and between *50,000* and 100,000 pickups.

**New car sales**




Source: Samar

**Market share 1997**

Total market: 477,960 cars